# FOREIGN AFFAIRS

AN AMERICAN QUARTERLY REVIEW

## JANUARY, 1927


| | | |
|---|---|---|
| The Grouping of Nations | *Archibald Cary Coolidge* | 175 |
| French Finance and the Franc | *F. François-Marsal* | 189 |
| Ireland's Economic Outlook | *Sir Horace Plunkett* | 205 |
| Who Buys Foreign Bonds? | *Dwight W. Morrow* | 219 |
| Downing Street and Arab Potentates | *L* | 233 |
| French Responsibilities in Europe | *André Géraud* | 241 |
| The New Steel Cartel | *Walter S. Tower* | 249 |
| Three Days in Belgrade: July, 1914 | *Hamilton Fish Armstrong* | 267 |
| Dictatorship in Spain | *R. T. Desmond* | 276 |
| Race Questions in South Africa | *Patrick Duncan* | 293 |
| Bolshevik Romance and Reality | *Victor Chernov* | 307 |
| Railways and Revolutions in Mexico | *Alexander V. Dye* | 321 |
| Abyssinia and the Powers | | 324 |
| Malaya and the Philippines: Colonial Contrasts | *Ralston Hayden* | 327 |
| Eupen and Malmedy | *Robert H. George* | 332 |
| Some Recent Books on International Relations | *William L. Langer* | 336 |
| Source Material | *Denys P. Myers* | 344 |



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The Editors.

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# FOREIGN AFFAIRS

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## THE GROUPING OF NATIONS

*By Archibald Cary Coolidge*

IN the fourteenth chapter of the Book of Genesis, we learn that the prophet Abraham aided four "kings" to defeat five others and was rewarded by a blessing from one of his associates. This early instance of alliances has been followed by many more. As the world has grown smaller, thanks to improved means of communication, and as the interests of every country have tended to become far flung, regions remote from one another and of the most various character have been brought into close relations in war and peace. Under modern economic conditions the advantages of vast political and commercial aggregations are becoming ever greater, and this has only been emphasized by the increase in the number of small states owing to the World War, for it is but too plain that, however independent, they can not be completely self reliant. Everywhere today we find a tendency towards large groups which would fain be self supporting.

Associations between nations, like those between private citizens, may be based on principles of widely different kinds. A man may belong with equal loyalty to all sorts of organizations corresponding to his diverse interests. He can be at the same time an enthusiastic member of the Sons of the Revolution, of the Knights of Pythias, the Republican party, the Association of Amherst Graduates, the New York Bar, the Methodist church, the local golf and dramatic clubs, etc., etc., etc. Such activities may interfere with one another and constitute too heavy a drain on his resources but there is no incompatibility between them. Whole peoples have not the same range of choice but they may be drawn together by sympathies due to religion and culture, to similarity of political institutions, to ties of blood, real or fancied, and the use of the same or similar languages. Or they may be mutually attracted by the fact that they are neighbors and as such have identical interests, or that they can supplement each

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other economically to the profit of both, or that they have the same enemies. Their motives, like those of individuals, are mixed and sometimes contradictory and they are equally fickle in their affections.

The great empires of history have been built up by conquest and colonization and have represented the supremacy of a nation as well as of an individual. They have rested on brute force but also on other and on widely differing principles. The Roman Empire at its height, like the Chinese one, comprised if not the whole known world at least all the world that its inhabitants thought worth knowing. After its fall, the recollections of its culture and the common religious faith accepted by its citizens and taught by them to the barbarians maintained for centuries a certain unity of the Christian world, though this was sadly marred by its division into an eastern and a western half. Even now the idea of "Christendom" as one religious brotherhood of peoples is not quite extinct, in spite of the further enfeeblement produced by the Reformation and its wars and by the dissolving effect of modern toleration and indifference. Pan Islamism as a political bond due to creed has more vitality. A good deal was heard of it a few years ago and there is no doubt that a Mohammedan power in conflict with a Christian one can count on much warmer sympathy from coreligionists than can its adversary. Both England and France in their dealings with the Turks since the World War have been affected by the necessity of not offending too deeply the feelings of their own Mohammedan subjects; nevertheless, a Jehad would be almost as out of date as a Crusade, and Pan Islam as an imperial dream need not be taken too seriously. The Turks have turned their backs on it and have shown how little they care for its supreme lord, the Caliph, by deposing the one under their control and putting an end to the office for the time being.

Akin to and including religious ties are cultural ones, for instance the whole group of conceptions which arise in our minds when we speak loosely and melodramatically of the "West" and the "East." Similarly such phrases as "The Holy Alliance," the "League of the Three Emperors," "the war to make the world safe for democracy" suggest associations with some spiritual principle common to all concerned. "The Union of Soviet Socialist Republics" is a recent example, and "Pan Americanism" is not based solely on geography.

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In the course of the last hundred years the desire of people of more or less the same blood and language to form national states of their own has led to many convulsions and to extensive changes in the political geography of Europe. Since the World War and the Russian Revolution, this principle has triumphed almost everywhere, though there have been flagrant violations of it in the drawing of the new national boundaries. But long ago broader movements of the sort had been started, movements not only like the Pan German, the Pan Angle and the Pan Hispanic, to bring about the union of all who use the same tongue, but also of all who belong to the same great linguistic group; hence we have Pan Teutonism (*i.e.*, "the Nordic Races"), Pan Latinism, Pan Slavism, etc. Nebulous as these ideals have been, they are real forces which we have not heard the last of. To be sure, they are not much the fashion at this moment. The communion of the so-called Nordic peoples has not yet reached the stage of practical politics; the union of hearts of the Latin sisters, or at least of the chief European ones, has seldom been less in evidence than it is just now, when one of them seems to be the pet aversion of the other two; and Pan Slavism is quite irreconcilable with the doctrines of communist Russia, at any rate at their present stage.

Radically different and in many cases at hopeless variance with such ideas are the political conceptions and ambitions based on principles of geography and economics. It is true these two are by no means identical, for the geographical motive is based chiefly on contiguity and on natural boundaries while the economic motive rests rather on a proper supply of the necessary resources, some of which may have to be controlled from a distance. Still they may be taken up together, for ordinarily they coincide enough for rough purposes and they represent tangible material interests as opposed to more sentimental claims. To many economists, indeed, such things as nationalism represent nothing but aberrations which prevent foolish mankind from following the path of its real advantage. According to them the only salvation lies in conforming in political matters as closely as may be to the inexorable physical laws and limitations prescribed by nature. Therefore the proper basis for the grouping of countries is regionalism. This doctrine is in truth all the fashion, especially in Europe. The Little Entente is seeking neighborhood extension; the Baltic States also are trying to draw together; a Danube Confederation and a

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Balkan Pact both have many advocates; and over and above them all Pan Europe can count no small number of ardent partisans.

Certainly at first sight "Pan Europe" would appear to have much to recommend it. To a disjointed and morselled-up continent where trade and enterprise are interfered with every few miles by artificial barriers and senseless regulations, it holds out a hope of economic unity with a field for internal industries comparable to that of the United States. It also appears to many people in the victorious, in the vanquished, and in the neutral countries of the late war to offer the best protection against an increasing menace of slavery at the hands of the American capitalist. But though part of the popularity which the plan has met with is due to fear of America, the idea of Pan Europe does not in itself imply hostility to anyone. On the contrary it is analogous to Pan Americanism and looks forward to other similar regional understandings and agglomerations. The Soviet republic is already one of these, the British Empire or Commonwealth of Nations another, the Far East might be a third, and so on till the whole globe is apportioned among a few main divisions, each of which can look after its own peculiar problems. Enemies of the League of Nations may accept this solution as a substitute, a better and more practical arrangement, for it would free people from care and responsibility for distant territories and vexed questions which do not belong to their region and in which they have no interest. Friends of the League, on their part, can maintain that Pan Europe would be no more incompatible with a general association of nations than is the existence of individual states today. They can say that such a system would strengthen the League and improve its machinery by introducing a court of first instance which could deal with local problems, leaving the general Assembly freer for large undertakings.

The Union of Soviet Socialist Republics and the British Empire are already existing political entities. Pan America is at least an affiliation of sorts with certain official organs. Pan Europe is still only a dream but it is beginning to be widely discussed and it has just had its first "congress," replete with the enthusiasm and the eloquence customary on such occasions. The project may therefore be regarded as fairly launched. What are we to think of it?

A question which immediately arises and which made trouble at the congress itself is, what is "Europe"? Surely it means

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something more than an arbitrary block of territory called a continent in geographies, and no more really separate from Asia on its eastern side than the American east is from the American west. Culturally, indeed, Europe is an old conception, that of a region with a common past and civilization which have given its peoples a character and place of their own with common political and other interests. But where does this Europe begin and end? Turkey was not regarded as part of it as late as the Congress of Vienna in 1815, Russia only belonged to it for two centuries and now is to be placed in a separate group. But this is not all. It is proposed that Great Britain shall be de-Europeanized and left to her own belongings.

For the exclusion of Russia from the proposed confederation, even if she does still occupy about half the surface of Europe, there is much to be said both on cultural and other grounds. If the world is to be parcelled out into large divisions, the Soviet Union or whatever may succeed it makes a good enough block in itself. It forms a huge mass of contiguous territory, with vast resources of diverse kinds, it has a certain historical and geographical unity, and in the main tolerable frontiers. From Poland to the Pacific it is not real Europe nor Asia, it can claim a character of its own, but its exclusion means a Pan Europe dependent on other groups for much of its food supply.

The shutting out of England is more startling. We can see, to be sure, on what the conception was based. The British Empire by itself comprises such a large portion of the globe and so many people that it does not need to be included in any other unit. The English, too, have often been looked on by the nations of the continent as outsiders and in return there has been among many Englishmen a feeling, never perhaps stronger than at the present day, that England should keep away from continental affairs and that her primary interests lie in the development of her splendid territories and in closer relations with her offspring beyond the seas, including those in the United States. If she must choose between "Europe" and "Empire," let it be "Empire." The "silver streak" still separates Dover from Calais.

This is all very well, but there is no escaping the fact — and all it implies — that a channel which can actually be swum across is small protection against an aeroplane or a submarine and that London itself is or soon will be within the range of heavy artillery from the other side of the strait. England cannot disinterest her-

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self from what is going on in her immediate vicinity, a vicinity which modern means of communication is making ever closer. As long as she remains the heart and head of the British Empire, that Empire will and must be primarily European, even if its more distant parts refuse to take a hand in what is going on overseas. Commercially, too, though the fields of British export and import will vary from time to time, the trade of Britain with the continent can hardly fail to be vital to her. Culturally she has always been an integral portion of Europe since the days of Roman rule, indeed, notably in the Far East, she has more than once been the chief representative.

Of course the reply will be made that the non-inclusion of Britain in Pan Europe does not mean that her intercourse with the mainland need be any the less intimate but only that she will not form part of the same politico-geographical group, and will not concern herself with questions peculiar to it. But are there any such questions? Is not England more deeply interested in each and every European problem that comes up than is one or another of the continental powers? Is she not, for instance, more closely connected with the Baltic States than are three-quarters of the other nations of the continent? A Pan Europe which does not include Great Britain will not be Europe.

Moreover, as it would be hardly feasible to treat states as politically separate from their possessions, it is proposed that Pan Europe shall include the lands belonging to its various members wherever they are situated. This means that four-fifths of Pan Europe and a population larger than that of the United States will be located not in Europe but in Africa and the East. It may be well that, as thus provided, Esthonia shall share in the destinies of the Belgian Congo and of the western or Dutch (yet not the eastern or British) half of New Guinea, but the inclusion of colonial territories in the European complex makes the exclusion of the British Empire even queerer geographically. Not only are England and France to be regarded as having separate sets of interests but the same applies to the English and French portions of the Togo and Camerun mandates.

On the other hand, if the British Commonwealth of Nations were to be included in Pan Europe, this would bring in Australia, Canada and South Africa, not to speak of the 300,000,000 Asiatics in India. The sum total would then be less European than ever and would constitute a group comprising so much of this terres-

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trial sphere that it would have little unity or purpose of any kind. Whatever it could accomplish might better be left to the League of Nations.

The deciding of what Pan Europe should include is only a first step and gets over none of the difficulties. Partisans of the project draw much comfort from the example of what happened on this side of the water. They say that if thirteen jealous and independent communities were able in 1787 to form the United States of America, why should not the nations of the old world, with the example before them of our splendid success, taught by their own mistakes and sufferings and urged by their disastrous economic situation, form the United States of Europe. They forget that whatever may have been the quarrels, dislikes, selfishness, shortsightedness of the thirteen American states, when all is said and done they were inhabited by people of essentially the same stock, the same language, history, traditions and civilization, who had recently been cemented together by years of warfare against a common foe. They had nothing to forgive or forget and they had not yet built up industries to compete with one another. Great as were the obstacles that had to be overcome in detail before their political union was achieved, there has seldom been one more clearly indicated by nature.

None of the above facts is true of Europe. A federal union similar to our own never was more unlikely than it is in this day of intense national consciousness and warring passions. Even a commercial union, however imperiously demanded by the present critical condition of industry, by American competition and by the economic progress of the world, bristles with difficulties, indeed the recent manifesto of the great bankers sounds sadly like a counsel of perfection. Doubtless we may hope for alleviations of the existing situation, for more reasonable tariffs, and we may look for an increasing number of cartels and of commercial and industrial conventions in which several states will take part, but many of these arrangements will hardly be confined to members of a single group. The new steel agreement, though a regional understanding which at this moment affects and is affected by the political situation, does not differ intrinsically from a deal between, let us say, the Standard Oil and the Dutch Shell Company. At any time it may be extended so as to bring in American or other interests and thereby lose its fortuitous European character. Actual tariff unions between two or more independent

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states, though less likely, may be brought about. If so, the result will be watched with curiosity, for they will constitute an interesting not to say novel experiment. The German Zollverein is the only successful example of this kind in the last hundred years and it was not so much an agreement between equals as a grouping of small units about a great one. If a tariff in a federal country like the United States is a matter of infinite complexity, with hundreds of items representing countless bargains and adjustments, how much more difficult to arrange will be one where the bargainers represent whole nations. Just now in spite of all the talk about the manifest advantages of throwing down customs barriers, there are few real indications of any such tendency. The self-governing dominions of free-trade Britain have tariffs which they jealously look after and show no signs of abandoning or greatly mitigating in favor of each other or of anyone else. As for Pan Americanism, its first congress was called a century ago at Panama, an event which has just been celebrated by another meeting on the same spot, but the peoples whose representatives have once more been expressing their fraternal sentiments are no nearer to a commercial union than they were when they started.

Pan Americanism is, however, a living force today, though its real strength is difficult to gauge. Like the Monroe Doctrine from which it is descended, Pan Americanism is based in part on a geographical conception, namely that the countries of the western hemisphere constitute a unit, and in part on the spiritual one that the populations of these countries are distinguished by certain characteristics and aspirations which make it meet that they should compose a group with a regional understanding of their own. To be sure, it is easy enough to pick flaws in these theories, to point out that New York is much nearer not only to London but to Constantinople and everything between than it is to Rio Janeiro; that the white inhabitants of the United States have far more in common with those of the other English speaking lands than they have with any Latin Americans, who are hardly as close to them as are many Europeans, besides which the "old world" and the "new" are getting more alike every day, now that there are about as many republics in the eastern hemisphere as there are in the western and the whole globe is becoming "Americanized." Nevertheless, Pan Americanism as a principle of solidarity is believed in by a goodly number of people in both the northern and the southern continent, it is accepted by all the

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governments concerned, it is popular with public opinion, and even if the tangible results of the various congresses have so far not been imposing, they have at least helped to create better feeling all round.

Whether the sentiment has any deep roots is a point on which many will remain skeptical. In Latin America suspicion and fear of the United States are aroused at the slightest provocation. Even now the League of Nations is welcomed by some of our friends to the south of us not only as a counter attraction to Pan Americanism but also as a make-weight against Yankee domination. As for the efforts which have been made to promote closer Pan American cultural relations, their results so far are meagre. When an American, whether of Anglo-Saxon or of Latin stock, wishes to go outside of his country for literature, music, art, or mere variety and amusement, he turns first and foremost to Europe. There is little reason to foresee much change in this respect.

A curious feature and anomaly of Pan Americanism is that so far it rarely includes the largest of American countries, the Dominion of Canada. This appears even more absurd than leaving England out of Europe. It has been based, of course, on the idea that Canada is theoretically not independent but is a British possession. If in the past this reason has been hardly an adequate one, especially when applied to scientific congresses, today with Canada a self governing state, making her own separate treaties and with a representative of her own at Washington, it is ludicrous to ignore her in Pan American questions and to treat her as if she were situated in another hemisphere. It is also unwise, from the point of view of the United States. The possibility that Downing Street might acquire some influence in Pan American affairs is negligible compared with the consideration that it is bad for the United States that Canada should be encouraged to think herself not so much an American country as a member of the "third British Empire."

The development of the British Commonwealth of Nations is indeed a matter of more than academic importance to the American people. That the Empire must some day go through a process of transformation if it were to hold together at all has long been evident, but until recently almost nothing was done to prepare for the transformation and to determine its character. The idea of imperial federation has often been suggested. A begin-

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ning might have been made generations ago and seats in the House of Commons given to Canada and Australia, as they are to Algeria in the French Chambers, though the examples of Cuba and Ireland among others, not to speak of our own Civil War, prove that representation in the central parliament does not necessarily preclude armed attempts at secession on the part of dissatisfied territories. At any rate Great Britain took no steps to meet the future, except to recognize the necessity of granting ever greater powers of self government to her colonial subjects and thereby avoiding the discontent which led to the American Revolution. Her statesmanship and liberality in this respect were rewarded by the magnificent support she received from overseas during the World War.

The very magnitude of this support, however, inevitably stimulated the consciousness of the self-governing dominions, as did their participation in the peace negotiations and their admission as independent members to the League of Nations. They now have a feeling of their strength and of their importance as never before, and they have every intention of henceforth managing their own affairs. Ireland has been granted at least semi-independence. In India, nationalist discontent has assumed alarming proportions. The British Empire is obviously in a state of rapid transition. At the present moment it is moving in the direction of a British Commonwealth of self-governing nations. What will be the final outcome is still uncertain. The obstacles to be overcome are formidable. The question of India by itself presents appalling difficulties, and even leaving aside all the problems connected with the dark skinned and dependent races, the ultimate form of adjustment between the self-governing English-speaking members cannot be predicted too confidently.

In the League of Nations, the British have at present a plural representation. This has often been criticized, even if there are those who say that one effect of participation has been to weaken among the dominions the feeling of the necessity of their continuing to maintain a political connection with the mother country. As matters stand, Britain practically appoints two of the delegations to the Assembly — her own and the Indian. It might be claimed likewise that the various dominions have been doubly represented, for besides their own delegations there has been the delegation, not of Great Britain, but of the "British Empire" of which they are component parts. This, however, is only a matter

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of wording, easy to change, and so far each of them has spoken and voted according to its own independent ideas, though a certain feeling of general solidarity between them is only natural. Permanent coöperation might easily arouse in other members the sentiments and arguments against over-representation which had so much to do with keeping the United States out of the League. The arrangement is at best illogical. If Russia were to apply for admission, why should she not by analogy ask for six places for the six republics which constitute the Soviet Union?

Be this as it may, the rest of the world will be affected by the development of the British Commonwealth, and no country more than the United States, little as Americans bother about whether the various British territories are drifting off separately or drawing closer to one another in some new understanding. The time has passed when the House of Representatives would have the impertinence to pass a vote, as it did in 1867, protesting against the formation of the Dominion of Canada. But there was at least this much sense in the impertinence, that it showed a recognition too often lacking today of the fact that what goes on north of the four thousand miles of artificial border which separate us from Canada is of real consequence to us. Of course on higher grounds we should not only welcome the prosperity of all our English-speaking kin but should look with sympathy on their efforts to form a brotherhood. We recognize the right of the Canadians to regulate their destinies as they please, and wish to see the best of feeling prevail between Canada and the mother country. Are we, however, to welcome the formation of a British Commonwealth of Nations if one effect of it is to be the drawing of Canada further from the United States and closer to Britain? "Imperial preference," one of the essentials most insisted upon by the enthusiasts for such a commonwealth, would mean among other things an attempt to benefit British and Canadian trade reciprocally at the expense of American. This is doubtless legitimate, but so might be retaliation on the part of the sufferer. The fact that the preference granted so far has had insignificant effects does not necessarily prove that more drastic measures would be inefficacious. If they are introduced, what are we to do about it?

There are people who believe that the best of all regional understandings for the United States would be union with Canada and that sooner or later it will come to pass because it is

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in the nature of things, that it would be a blessing to all parties as was the union of the American states in 1789, that the patriotic attempts of the Canadians to build up industries which do not naturally pay for themselves and to send trade along their own routes and from their own ports at greater cost than is incurred by using American ones is like making water run up hill. To be sure, there is very little active sentiment in the United States in favor of annexation, much less any plot to bring it about, though some Canadians cannot get over imagining the contrary. In Canada, too, there is no real movement in this direction. The crude truth is that the attitude of one side is not infrequently characterized by deplorable indifference, that of the other by rank dislike. Yet, in spite of this, the lack of good frontiers, the essential unity of the two peoples, and the workings of modern economic forces which bring them nearer together every day may prevail in the end. At any rate, one can hardly blame Americans who regard union with Canada as not only natural but desirable, if they look somewhat unsympathetically at efforts to bind her more closely to Great Britain.

It is far from sure that any such efforts will be permanently successful. On the contrary it looks more probable that the British Empire will evolve or disintegrate not into a real commonwealth, though that may be the title, but into a loose confederacy of independent English-speaking states, bound together by ties of blood, language, culture and ideals, with a common sovereign and his governor generals as figureheads, but each free to follow its own interests in whatever way it thinks fit, which means that no one will be required to support the other in a war unless it chooses to. The recent imperial conference marks a long step in this direction. When it has been ratified the "United Kingdom" will have ceased to exist in name as well as in fact. The Empire remains, but henceforth Great Britain and the Dominions will be "autonomous communities within the British Empire, equal in status and in no way subordinate one to the other in any aspect of their domestic or external affairs, though united by a common allegiance to the Crown and freely associated as members of the British Commonwealth of nations." Time alone can show how much "unity" will remain under this new dispensation and how things will work out in every day life. Even a substantial imperial preference in the matter of tariffs is doubtful in the long run. Other countries will resent being excluded from "most favored nation" treat-

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ment and will have ways to hit back if need be. Not only will there be no reason why the distant dominions should be included in Pan Europe, but very possibly it may be to the interest of a member of the Commonwealth to entertain more intimate economic and political relations with some outside country than it does with its fellow members. A British Commonwealth of Nations so constituted will hardly represent a much closer entente than the sentiment of community which, marred though it be by jealousies, attaches the different Latin American republics to one another.

In such a group, we may well imagine the United States taking part in some form — indeed, becoming more interested in it than in Pan Americanism and ultimately playing somewhat the same sort of a rôle that it now does there. Even now Canada, though not included in the Monroe Doctrine, is at bottom protected from foreign conquest fully as much by America as by Great Britain. She has no need to contribute to imperial defence.

So much for the white populations of the British Empire, but how about the colored ones who are more than five times as numerous? Are they to form independent nations in the British Commonwealth? In the case of India, the question is likely to become acute at no distant date. The example of the dominions cannot help having an influence on her, and some day — though it may be far off — Nigeria and other regions will have aspirations in their turn. Even if India were let go, as Egypt has been, and left to struggle out her own salvation like China, and if gradually the same were to happen to other British lands in which the colored man predominates (except in South Africa where the whites, though in a minority, are too numerous to be abandoned), even then the British Commonwealth would occupy one of the first places in the world, and a league of English-speaking peoples would occupy almost a dominant one, though its centre of gravity would not be in the eastern hemisphere. Whether such a consummation is to be desired is a question we need not enter into here. Some would say that before it can be brought about the development of the League of Nations will have rendered it purposeless. To others it is an ideal to be aimed at, to still others a peril to be feared.

Finally we must not forget that the tendency towards forming groups of nations is no longer confined to the white race. "Pan Asia," that is to say India as well as China, Indo-China, Japan

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and perhaps the East Indian islands, would constitute a tremendous mass of humanity. It may be a wild dream but it has its partisans in all the countries named. Even in the reduced form of a Pan Mongolian federation it is enough to frighten all the other nations bordering on the Pacific. In Africa the Ethiopic movement is insignificant as yet, but it has large possibilities and we have not heard the last of it. Altogether, hazardous as it is to prophesy in regard to any one particular movement and hopelessly as these movements conflict with one another, and in spite of the fact that we have been witnessing the break-up of empires, the tendency throughout the world towards great combinations, political as well as economic, is unmistakable today. Such combinations mean chances of future conflicts on a gigantic scale. They also suggest possibilities of bringing us one step nearer to a world-wide fusion of international interests.

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# FRENCH FINANCE AND THE FRANC

*By F. François-Marsal*

THE disease which is eating away the economic frame of France is a currency disease — the depreciation of the franc. It has been characteristic of our situation for several years. What are its causes?

There is one general reason which certainly does not, as we shall see, exclude the subsidiary reasons, nor does it provide us with an excuse for our own mistakes, but which must always be borne in mind. That reason was admirably stated by Mr. Winston, Assistant Secretary of the United States Treasury, in his speech at the Bankers' Club of Kansas City, on October 11, 1925. "After the armistice," he said, "France was confronted by two possible solutions: either to resign herself to becoming a second-class power, to playing a minor rôle in the world, and to renouncing her position in foreign commerce; or to build up her industries again at no matter what cost. But the restoration of the devastated regions involved an enormous expenditure in excess of current receipts, causing further inflation and delaying stabilization. France chose the second alternative, and she was right."

One is tempted to add that there really was no choice. No Frenchman would have accepted any other solution. By force of circumstances we were compelled to sacrifice financial reform to the economic reconstruction of the country. As Germany did not fulfil her engagements, we had to effect the work of reconstruction out of our own resources. Today between 87 and 90 percent of the material damage has been repaired. So much stands to our credit. As against that, we must debit ourselves with the cost of reconstruction, about 80 milliards of francs. We once more are equipped with an industrial and economic plant of the first order, but our currency is depreciated.

Great Britain adopted the contrary course. She disregarded economic reform and concentrated on the restoration of her currency. As a result, she now has a sound currency, back at par, but in revenge her economic machinery is out of date, and she is involved in social and economic difficulties which are none the less serious because they are not financial. It might be said that Great Britain also had no choice. Her course was dictated by her entire financial past, by a national instinct.

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Fate allowed the United States to end the World War with its gold standard intact and with a marvelously increased economic power.

I

The depreciation of our currency expresses itself in two ways. First, by the decline of the purchasing power of the franc at home. No country has escaped that decline, which is due to the world-wide revolution in prices. Even in the United States the dollar has lost about 34 percent of its purchasing power since 1914. It might be argued not only that the currencies of Europe should be stabilized, but that gold also should be devalued, as a result of the destruction of stocks and reserves consumed by the war. Without agreeing with all the theories of Mr. Irving Fisher, one must admit that the distinguished Yale professor is right in demanding the stabilization of the purchasing power of money.

However, the extent of the decline in domestic purchasing power varies according as the currency of the country is stabilized or not. There is a constant discrepancy between the index of a country with a stabilized currency, like Great Britain, and that of a country like France. The wholesale index in Great Britain, expressed in gold values, was 166 on the first of January, 1925, and 149 on the first of January, 1926. In France, on the same dates, the figures were 146 and 126. The difference is a measure of the domestic depreciation, due not to general but to particular causes — to the currency disease of the country.

In an even clearer manner the depreciation of the franc is seen in the rates of exchange, for those rates influence our financial and political standing in the world and in addition reveal the difference between the paper money rate and the gold standard.

What is the history of French exchange since the war? Let us briefly recall it by periods, bearing constantly in mind the essential cause of the trouble as defined above, but noting also our own mistakes.

*1. From the war to the armistice.* During the war, from August 1, 1914, to November 10, 1918, the average rate of the dollar in France was practically par. It varied from 5 frs. 18 (minimum) to 5 frs. 97 (the monthly average for May, 1916).

France negotiated her foreign securities and pledged part of

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her stocks of metal; the expenditures of the English expeditionary forces, and later of the Americans, were an important asset; in addition, the Inter-Allied agreements provided her with credits. At this time there was no free exchange market.

2. *The year 1919.* In the course of this year the value of French currency was halved. From 5 frs. 45 in January, 1919, the dollar rate went to 10 frs. 78 in December (monthly average).

France began the restoration of the devastated regions, but two mistakes were made: first, by the Allies, when on March 13, 1919, they abruptly broke the exchange agreements instead of arranging for the transition from war-time finance to peace finance; secondly, by the French Government, which incurred a lot of ill-considered expenditures — the so-called war "liquidation" — wasted its resources instead of adopting a strict policy of retrenchment, bought great quantities of raw material abroad, and heavily burdened our commercial balance.

3. *From 1920 to 1923.* The dollar fell from 14 frs. 56 in 1920 to 13 frs. 45 in 1921, and then to 12 frs. 29 in 1922.

The period opened with the new parliamentary elections (National Union). France achieved the major part of the work of reconstruction, despite Germany's default. The consequences of the mistakes of 1919 became painfully evident. Furthermore, the world economic crisis at the beginning of this period aggravated our situation. Nevertheless, we succeeded in slowly improving our exchange, which at one moment (April, 1922) fell to the level of 1919.

4. *From 1923 to the last half of 1924.* The dollar rose from 12 frs. 29 in 1922 to 16 frs. in 1923 (yearly average), rose to 27 frs. 08 on March 11, 1924, and fell to 15 frs. 32 on May 7, 1924, on the eve of the parliamentary elections.

France almost completed the work of reconstruction, and for that reason this burden weighed more heavily than ever on the currency. At the same time foreign speculators tried to profit by the situation and there was a tendency to bring political pressure to bear upon France's position in the Ruhr. The franc was sold wildly. J. P. Morgan and Co. opened credits to the Bank of France, helping it as the latter used to help before the war when American finance was in need. Speculators in francs bought back; the dollar fell. The Morgan fund remained intact, and important exchange reserves were effected.

5. *From the last half of 1924 to July 22, 1926.* The dollar rose

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from 15 frs. 32 to 21 frs. 22 in 1925 (yearly average) and to 46 frs. 90 on July 22, 1926.

The new elections gave the Chamber of Deputies a majority with Socialistic sympathies. Although the reconstruction expenditure for the devastated regions was trifling, the policy pursued by the ministries of the "Cartel des Gauches" produced an unprecedented crisis. Inflation became the rule; the statute of the Bank of France was frequently violated; the Morgan fund was partly used up. The period ended, after several weeks of acute crisis, with the return to power of the Ministry of National Union.

Since the accession of M. Poincaré the position of the franc has rapidly improved. As I write this, at the end of October, the dollar stands at 33 frs. But French currency and securities have declined in value by one half since May 11, 1924, exactly as in 1919 and for the same reasons of domestic politics.

II

In the new period which is opening before us, what will be the position of the franc? There are three possibilities:

*1. The integral revaluation of the franc.* At certain periods in our exchange history the margin between the dollar rate and par was not very great, and it was reasonable to believe in the possibility of revaluation. Since the recent disturbances that margin has unfortunately vastly increased, and we can only repeat with the Committee of Experts: "The integral revaluation of the franc is today chimerical, because it presupposes continuous and systematic deflation, which would be ruinous to the taxpayers crushed by the burden of a public debt whose nominal value would represent the total wealth of France, and ruinous for industry, commerce and agriculture, which could not stand an indefinite fall in prices and the consequences of engagements contracted since the franc depreciated."

*2. The abolition of the franc and the creation of a new currency.* During the last of the periods described above this possibility was to be feared, so rapid was the rate of depreciation of the franc. The example of Germany was present to all minds. Fortunately that danger no longer exists today.

*3. Currency reform by stabilization.* There remains this final solution—to stabilize the franc as rapidly as possible, and then proceed to reform the currency. France should stop the fall of the franc, and then establish a new par for her sound currency.

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Unfortunately, serious obstacles stand in the way of stabilization. Just those obstacles sum up our financial difficulties. To surmount them is to overcome the danger that threatens us.

III

*In order to stabilize the franc we must first restore its normal functions to our bank of issue, the Bank of France.*

It is the business of a bank of issue to see that the instruments of fiduciary payments are sound. How do we stand here?

A bank note is sound in certain well-defined conditions. There must be, on the one hand, a metal reserve sufficient to guarantee possible demands for redemption in view of payments to be made abroad, or there must be sound commercial securities representing wealth that not only has been created but has been put into the circulation of exchange. The merchant receives bank notes when discounting securities at the bank.

The war seriously impaired this machinery. First the Bank of France was compelled to abolish convertible notes and to introduce fiat money, and then it had to feed the Treasury for reasons of national defense. From that time onwards the state borrowed from the Bank and the notes issued on its demand had no counterparts that were liquid and realizable on short term, but only Treasury Bonds issued by the state: the phenomenon which constitutes inflation. As an economist has well put it: "The Treasury Bonds which represent the state's debt to the Bank are a lien on the future production and savings of the country, whereas the notes paid to the state against its discounts are a lien on existing production." As anyone can see, the difference is fundamental. The following table (in millions of francs) clearly shows how the war impaired the normal machinery:

| | *1913* | *1918* |
|---|---|---|
| Metal Reserve | 3,972.1 | 5,690.0 |
| Portion of Metal Reserve on Deposit Abroad | none | 2,039.9 |
| Commercial Securities (yearly average) | 1,644.7 | 1,082.8 |
| Advances to the State (balance at end of financial year) | none | 17,150.0 |
| Notes in Circulation | 5,665.0 | 27,532.0 |

In order to put the Bank on a sound basis, as soon as hostilities ceased we should have adopted a policy of amortizing the state debt which appears in the balance sheet for 1918. The exact opposite was done. As a result of the extravagant policy pursued

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by the Eleventh Legislature, above referred to, the authorized maximum of advances to the state increased, in the course of 1919 alone, from 18,000 millions to 27,000 millions, while the notes in circulation rose from 27,532 millions to 34,774 millions. But during the same time the metal reserve remained almost stationary and commercial securities actually declined from 1,082.8 millions to 1,034.6 millions.

Consequently, in 1920 the newly elected Government decided to put an end to inflation and to undertake seriously the repayment of the loans contracted by the state. From the 27 billions of Bank loans permitted at the end of 1919 the figure was reduced to 22 billions. Circulation was the sounder by 5 billions. The following table (in millions of francs) shows the process:

| | *1920* | *1924* |
|---|---|---|
| Metal Reserve | 5,812.0 | 5,843.0 |
| Portion of Metal Reserve on Deposit Abroad | 1,970.4 | 1,864.3 |
| Commercial Securities | 2,198.8 | 4,522.0 |
| Advances to the State (maximum) | 27,000.0 | 22,000.0 |
| Notes in Circulation (yearly average) | 38,186.0 | 39,950.6 |

But early in 1925 began another and terrible period of inflation. Nothing could be more eloquent than the following table:

| | *1924* (*Yearly average*) | *1926* (*August 5*) |
|---|---|---|
| Metal Reserve | 5,830.4 | 5,886.5 |
| Commercial Securities | 2,386.9 | 7,866.1 |
| Advance to the State (maximum) | 22,000.0 | 38,500.0 |
| Notes in Circulation | 37,317.0 | 57,258.6 |

It is obviously urgent that the normal functions of the Bank of France should at once be restored. But to make the same effort as in 1920, to resist all further inflation, to stop the printing of paper, when the Treasury has acquired this convenient habit of satisfying its needs—all this requires no little courage. However, with the present government, it would seem as if nothing further need be feared in this connection, and we are no longer threatened by the issue of more notes.

But it is even more difficult to absorb the enormous debt of the state, for in addition to the moral courage we must have the indispensable resources and practice a policy of methodical repayments. A reading of the weekly statements of the Bank of France shows that advances from the Bank to the state fell from 38,351 millions on July 22, 1926, to 36,300 millions on October

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14. In other words, since the Poincaré Ministry came to power, 2 milliards of francs have been repaid. At the same time, 930 millions were repaid to private banks, enabling the latter to lighten their commercial securities account discounted by the Bank of France.

The enormous size of the state debt, however, shows how visionary it is to believe that it can ever be paid off entirely. Provided the franc is stabilized at a reasonable figure, the debt, without completely disappearing, will be sufficiently reduced to permit of covering the notes in circulation. At what figure, it may be asked? In questions of this sort free rein may be given to the imagination. It is easy enough to calculate the proportion required to cover the notes according to the different rates of stabilization. For example (to confine ourselves to the existing rates) if we stabilize on the basis of the dollar at 30 francs, the notes would be covered by deposits and liquid securities in the proportion of 55 percent, the state debt representing 45 percent. Stabilization on the basis of 35 francs to the dollar would mean that the notes would be covered to the extent of 63 percent, the state debt representing only 37 percent; and so on.

Within such limits, is stabilization feasible? Yes, if we are to judge by what other nations have done since the war. The most famous experiment, that of Czechoslovakia, is particularly instructive. The following will show how the Czechoslovak crown was covered:

| | *Circulation* | *Covered* | *Percent* |
|---|---|---|---|
| | *(in millions of crowns)* | | |
| Middle of 1920 | 8,729 | 3,031 | 33.4% |
| End of 1920 | 11,289 | 5,197 | 46.5% |
| " " 1921 | 12,630 | 5,311 | 42.0% |
| " " 1922 | 10,084 | 3,687 | 36.1% |
| " " 1923 | 9,599 | 4,266 | 44.4% |

The comparison is in our favor.

IV

But the fiduciary currency of France is not limited to bank notes. There exists in addition a currency in a special sort of fiduciary paper issued by the Treasury. *In order to stabilize the franc, not only must the functions of the bank of issue be reëstablished, but also those of the Treasury.* The Treasury has become,

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and has remained only too long, a huge bank of deposit. Let me make this point clear.

As it proved impossible during the war to feed the Treasury with bank notes without disrupting the entire currency system, we had recourse to short term loans. The Government proceeded to issue three to twelve month bonds, called National Defense Bonds, on which interest was paid in advance. At the time of the armistice they totaled some 33 milliards of francs. In November, 1916, a consolidated 4 percent loan was issued, which somewhat reduced the short term debt. Unfortunately, this overdue effort at consolidation was not followed up. The year 1919, which might have been employed in procuring permanent resources for the Treasury, actually brought up the floating debt to the enormous figure of 46,140 millions. The bank note inflation was aggravated by the inflation of the short term bonds.

The Government in 1920, aware of the danger to French finance of this avalanche of floating debt, undertook to consolidate it; the undertaking was parallel to the deflation which we remember occurred at the same time. Two consolidated loans, one in March, 1920 (5 percent *Rentes*) and another in November, 1920 (6 percent *Rentes*), made it possible to reduce the amount of the floating debt perceptibly. At the same time, 150 million dollars were repaid to the United States and 100 million dollars were consolidated at long term.

This effort should have been continued, but the bonds were so useful to the Treasury, the machinery of renewal was so supple, that the Governments in power between 1921 and 1924 could not make up their minds to continue the process of consolidation.

As a matter of fact, nothing could be more ingenious and convenient than this system of bonds. In normal circumstances the public retains the notes that it needs, and only these. When bank notes leave the government coffers as a result of an excess of expenditures over receipts (inflation), the public soon brings them back and subscribes to bonds bearing interest — a fact not to be overlooked — and repayable on a fixed date of maturity. Inversely, when the state receipts exceed expenditure, the public as a whole — its currency requirements not being changed by that fact — demands the redemption of the bonds. This process is known as the circuit of currency.

That circuit is not automatic. It depends upon the will of the

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public. If for any reason the public believes that the political and economic situation is uncertain, that the state may fail in its engagements, or if there is a currency "shyness," it will stop subscribing. It hoards its bank notes or invests them in anything rather than government bonds. And when the bonds already issued mature the Government is faced with wholesale demands for redemption. Thus the psychological element, the factor of "confidence," enters into the matter and disturbs a piece of technical machinery which in itself is highly ingenious.

During all the period from 1920 to 1924 the circuit was completed without any difficulty, and it seemed as if it must always be so. The Treasury easily repaid vast sums at maturity because fresh subscriptions were constantly coming in. Let us remember that, from the end of the war up to December 31, 1925, the total bond issue has reached the formidable sum of 760 milliards of francs, and that 715 milliards have been repaid or converted. This machinery must, however, be manipulated with enormous care and intelligence. The moment public opinion was alarmed, the instant doubt crept into peoples' minds, sinister warnings of collapse were heard and the floating debt problem at one blow became the most terrible of all.

By the end of 1924 those warnings could be heard; and in the course of 1925, down even to recent months, we found how terrible a problem it could be. Why? Because the working of the Treasury, in clumsy hands, was absolutely wrong. Instead of seeing that the circuit of currency was completed as rapidly as possible, the Government which was elected in May, 1924, announced *urbi et orbi* that the Treasury might quite possibly be unable to meet its obligations. Dates of maturity were denounced as fatal dates which, unless some miracle happened, would necessarily usher in the bankruptcy of the country. Sweeping recriminations against the past were indulged in freely, and the supposed creators of the floating debt were roundly denounced, but no efforts were made to ward off the danger.

What was the result? In the first place, the spring of new subscriptions dried up, and those that were made were for increasingly short terms. From July, 1924, to July, 1925, the proportion of twelve-month bonds had steadily increased, while that of three-month bonds had decreased. During the last month of 1925 the contrary happened, as the following figures show:

Of the total bonds in circulation in 1921, 57 percent were

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twelve-month bonds. In 1922 these rose to 62 percent; in 1923 to 68 percent; in 1924 to 71 percent; in January, 1925, to 74 percent; and in July, 1925, to 76 percent. During the same period the proportion of three-month bonds declined from 9 percent in July, 1921, to 4 percent in July, 1925, and the proportion of one-month bonds from 6 percent to 4 percent.

In July, 1925, the tide turned. From that date to April 30, 1926, the proportion of twelve-month bonds declined from 75 percent to 72.4 percent, while the proportion of six-month bonds fell from 16 percent to 10 percent, and then to 8.3 percent. On the contrary the proportion of three-month bonds rose from 4 percent (July, 1925) to 7.8 percent, and that of one-month bonds rose from 4 percent to 12 percent.

In other words, as a result of the policy of the Government at that time, the Treasury from being a short-term deposit bank — in which capacity its position was already dangerous enough — tended to become a sight deposit bank — a thing frankly disastrous to public finance.

In the second place, the demands for repayment became more and more widespread. In order to meet them recourse was had to expedients incompatible with the good name of France.

The fall of the Herriot Ministry, which was succeeded by the Ministry of National Union, immediately resulted in everything becoming shipshape again. The excess of subscriptions to National Defense Bonds over repayments was 752 millions during the first fortnight in August; 1,003 millions during the second fortnight; and 634 during the first fortnight in September — to such an extent does the factor of "confidence" enter into the movement of bonds. In the last analysis it is governed by public feeling. The demonstration was conclusive.

At the same time it is equally obvious how false was the conception which prevailed when the floating debt was incurred. At all costs the Treasury must cease to play a part which in no way becomes it. How is this to be done?

On the initiative of M. Poincaré, Parliament has just created a Floating Debt Management Account, which has been credited with considerable resources for purposes of amortization. To this department has been entrusted the monopoly for the manufacture and sale of tobacco. The funds thereby assured are estimated at 3,500 million francs. This sum guarantees the liquidation of the floating debt and gives to bearers of Treasury Bonds

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the assurance that they will be repaid without the state's having recourse of the Bank of France.

This gesture has a symbolic significance. It does not solve the problem. So a consolidation loan has been floated, limited to 3 milliards. Other loans may follow. But the stabilization of the franc alone can ensure a definite solution of the problem: first, because of the automatic reduction of the debt which will follow; and second, because the administration of the floating debt does not offer any great difficulties when the currency is stable. In England the floating debt is greater than ours, yet British Treasury Bonds are easily renewed because the pound sterling has been stabilized. Nevertheless, true amortization, which is affected by means of economy and thrift, must wait until fresh wealth has accrued.

## V

This brings us to the very heart of the French financial problem: the problem of the creation of fresh wealth. Any financial expert can prove that the franc could be rapidly stabilized, with or without the help of foreign credits. None, however, will deny that the real difficulties will occur after stabilization has taken place, because, in order to maintain the rate of exchange and then reform the currency, the country must grow progressively wealthy; in other words, its trade balance must be on the credit side for many years.

The fiscal drain on France since the armistice has been too great for our taxable capacity, and it is systematically exhausting our economic strength. The drain has been all the greater because, as a result of inflation, the average French income has been very seriously curtailed.

It has been calculated that a fortune of 200,000 francs in transferable securities, invested in 1913, and divided amongst *Rentes*, shares in the six leading banks, six important industrial undertakings, and two railways companies, is worth today 149,060 paper francs, or 21,295 gold francs. It has lost, therefore, 89 percent of its gold value. Again, an investor who succeeded in doubling the nominal value of his income between 1918 and 1925, by saving a total sum of 11,616 paper francs, finds today that his savings represent only 1,696 gold francs, that is to say, he has really lost about 3,000 gold francs, or more than 61 percent of the amount saved. Many such instances might be cited.

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Despite the impoverishment of the individual, French taxpayers have made an heroic effort. Of what use has this been? Principally to carry the burdens of their countrymen who were compelled to pay for the reconstruction of the devastated regions out of their own pockets. In the French Budget, even if there is still room for economy, most of the expenditure is productive; and in any case we are one of the few Powers which have reduced, not increased, their military expenditure for national defense. The following table of military expenditures (in thousands of dollars) testifies to this fact:

| | *1913–14* | *1924–25* | *Percentage Increase or decrease* |
|---|---|---|---|
| Great Britain | 418,956 | 553,860 | +32 |
| India | 103,991 | 207,905 | +99 |
| United States | 257,354 | 617,762 | +140 |
| Japan | 93,534 | 176,814 | +89 |
| Belgium | 16,699 | 29,001 | +74 |
| Italy | 178,173 | 159,149 | −10.6 |
| France | 449,035 | 262,950 | −41 |

These figures speak for themselves. They show how badly informed these people are who pretend that our financial difficulties are due to the high cost of keeping up our armies.

I might compare our tax burdens with those of other nations — there is no want of imposing calculations — but the tables which I should have to include would far exceed the limits of this article. Without going in for any international comparison, it will be enough to place side by side the figures of the principal taxes for 1927 and those of preceding years, for the reader to see the burden we have borne. The table is in millions of francs:

| | *1913* | *1920* | *1927* |
|---|---|---|---|
| Direct taxes | 634 | 2,011 | 8,561 |
| Income tax | — | 1,094 | 2,400 |
| Taxes on movable property | 138 | 568 | 2,654 |
| Turnover tax | — | 942 | 7,581 |

I do not want to exaggerate. But I must put the question as to how, when 77 percent of an income is taken in general taxes, and as high as 60 percent of the balance is collected as income tax, and when on the death of the taxpayer 25 percent is deducted from capital inheritance from father to son and 55 percent from uncle to nephew — how, in these circumstances, can a country's wealth increase?

My argument will be understood nowhere better than in Amer-

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ica. In the United States a series of income tax reductions has been granted since 1918. An American taxpayer with a $10,000 income, *in a currency which has not depreciated*, paid $830 in 1918, $520 in 1921, $165 in 1924, and $101 in 1925. On an income of $30,000 the reductions have lowered the tax from $4,930 in 1918 to $3,520 in 1921, to $2,275 in 1924, and to $1,779 in 1926.

In 1926 there was a reduction of 387 million dollars in the income tax in the United States. The table which I have printed above shows that in France we have continually increased it.

There is one figure in that table which speaks volumes. The revenue from the tax on movable property rose from 138 million francs in 1913 to 568 millions in 1920, and for 1927 is estimated at 2 billion, 654 million. The implications of this are important. Even in gold values this tax, as compared with 1913, shows a formidable increase. Does it mean that the spread of limited liability companies in France has been comparable to their progress in the United States? Far from it. This increase is due to the fact that heavier and heavier taxes are being imposed upon the gross incomes of these companies, taxes so heavy that the point is not far off where the shareholder will be mulcted of all profits. Some examples quoted from the best securities on the Paris Bourse will show what is meant:

| *Stocks* | *Gross Dividend* | *Tax to be Deducted* | *Net Dividend* | *% of Tax to Gross Revenue* |
|---|---|---|---|---|
| Mines de Courrière..... | 12 frs. | 6.67 | 5.53 | 55.59 |
| Gaz Lebon..... | 18 " | 9.80 | 8.20 | 54.40 |
| Cirages Français..... | 12.50 " | 9.13 | 3.37 | 73.04 |
| Cie. Générale Industrielle | 10 " | 5.90 | 4.10 | 59.00 |
| Le Riploin ..... | 60 " | 45.90 | 14.10 | 76.50 |
| Brazilian Sugar Refineries | 25 " | 14.45 | 10.55 | 57.80 |
| Chargeurs Réunis..... | 25 " | 19.34 | 5.66 | 77.38 |
| *Bonds* | | | | |
| 4%Mines et Forges d'Alais | 10 " | 6.52 | 3.68 | 63.20 |
| 3½% Union des Gaz.... | 17.50 " | 8.20 | 9.30 | 46.85 |
| Mines de Marles ..... | 10 " | 5.72 | 4.28 | 57.20 |

Such are the percentages gathered in from these representative securities by the Revenue Department. What remains to the holder is further subject to a personal, progressive income tax.

Consequently, in every field of productive activity in France, progress is checked at the present time by the weight of taxation. Gradually taxation will absorb the entire taxable property.

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How mistaken those foreigners are who believe that our difficulty is to secure a larger return from taxation. No. The difficulty is to reduce the burden without hurting the budget, which is today in a state of "superequilibrium."

Nevertheless, I believe that once the franc is stabilized the taxpayers could obtain some relief. Further, I hold that unless they do our wealth cannot increase. Our revenue would not suffer because, if the rate of taxation is lowered, the amount of taxable property would increase.

We are still a country of immense possibilities. Notwithstanding the general impoverishment caused by the war, the total wealth of France, which was 320 milliards in 1913, cannot today be less than 240 milliards of gold francs. The essential thing is to derive from this capital a sufficient income to put our trade balance on the credit side. To judge by the results of our foreign trade during the past two years, the principal item in this account will show a credit balance in our favor. In 1913 our exports totalled 6,880 million gold francs. They rose to 11,239 million gold francs in 1925.

I do not propose to discuss the question of whether France profits by this, or whether, as the Committee of Experts declares, we are "liquidating" our products at cut prices, since our raw materials cost us more. This controversy itself would prove, if necessary, how urgent is the stabilization of the franc. At all events, a reduction of the burden of taxation would enable France to reorganize production in such a way as to reduce costs to the producer. This would automatically ensure us credit trade balance.

VI

To sum up, the condition of French finances, however complicated it may seem at first sight, justifies us in taking an optimistic view of the future of the franc. Stabilization of the currency is possible because all the conditions necessary to this operation are likely to prevail in the very near future. But the domestic difficulties are not the only ones. We have to consider the difficulties abroad. The problem of the inter-Allied debts is far from being solved. It will be obvious to everyone that the solution will definitely determine the state of our trade balance, once the franc has been stabilized.

This unknown factor is a redoubtable one, and the state can

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the less afford to neglect this side of the problem in that it has extended a series of credits to foreign nations. First, we have the credits made to nations other than Germany. The following is a statement of them up to April 30, 1926 (in francs):

| | |
|---|---|
| Russia | 7,553,000,000 |
| Belgium | 241,000,000 |
| Serbia | 1,783,000,000 |
| Rumania | 1,053,000,000 |
| Greece | 810,893,000 |
| Poland | 1,035,700,000 |
| Czechoslovakia | 490,100,000 |
| Italy | 1,156,000,000 |
| Portugal | 9,051,000 |
| Lithuania | 8,908,000 |
| Hungary | 798,000 |
| Austria | 379,000 |
| Georgia | 200,000 |
| Albania | 1,800,000 |
| *Total* | 13,743,829,000 |

For a variety of reasons it so far has not been possible to collect these amounts. Furthermore, Germany, which should have paid reparations for war damages, began to make regular payments only after the occupation of the Ruhr, which brought about the establishment of the Dawes Plan: that is two years ago.

So much may be counted amongst our assets. Amongst our liabilities are our debts to Great Britain and the United States.

Needless to say we ought to pay our debts, just as our debtors ought to pay us. That is self-evident.

Confining ourselves strictly to grounds of finance, and leaving out all appeals to sentiment, is it possible, as a practical question, to wipe out the liabilities without realizing the assets?

In sound financial administration the only method to follow would be to effect the payment of all the accounts presented by the various treasuries concerned. For our part, we made Great Britain adopt this method at the Hythe Conference (1920). If we admit that a general settlement is more difficult today than in 1920, if we do not count provisionally on the credits of France to her former Allies, we ought at least to be able to count on the German payments under the Dawes Plan. A part of our assets will then be realized.

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Should we not immediately amortize our liabilities by the same amount, adopting the principle of parallel dates of maturity?

But how is Germany paying her debt? One has merely to examine carefully the reports of Mr. S. Parker Gilbert to see that almost all German payments are effected in kind — in merchandise of all sorts. The Germans who make these deliveries are paid by the German state in German money, whereas the French purchasers of these goods pay the French state in francs. This device avoids all transfers of marks which might effect the status of the new German currency. But France receives no foreign currency, or very little.

Would France's creditors, in their turn, be willing to be paid in goods, especially the United States? It is most unlikely. Thus we reach an impossible paradox.

One part of our assets — credits to former Allies — cannot be realized at present; the other part, which has been regulated — German payments — is being realized in a manner which gives us no compensatory advantages. In other words, France will not be in a position to transfer automatically to the United States the payments which she will receive from Germany, but will have to buy foreign exchange on every date of maturity. How heavily these transfers will weigh upon the franc!

Moreover, the German debt is by its very nature quite different from that of the French debt to its late Allies.

We cannot close our eyes to the facts. The absence of any parallel movement between the settlement of our debts and the machinery of the Dawes Plan, the proposition that we would be obliged to transfer currency, while being repaid chiefly in goods, simply means that our liabilities would be cleared off without reference to our assets. In that case our trade balance would be so heavily burdened that it would always be a debit balance. The franc could not remain at the figure determined and the reform of the currency would be compromised, to the disadvantage of both debtor and creditor. If the franc depreciates, France will not be able to meet her engagements, however good may be the intentions of her statesmen.

France must not be confronted by that alternative. It would be a blow to the friendship of France and America. It would postpone indefinitely the longed-for restoration of the world's economic equilibrium.

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# IRELAND'S ECONOMIC OUTLOOK

*By Sir Horace Plunkett*

IN terms of European politics Ireland is one of the small countries which had to be "reconstructed" after the war. The task was not undertaken by the great and wise at Versailles or Geneva, but by the British Parliament, which could not allow the seven centuries old "Irish Question" to complicate the settlement of its own post-war Imperial problems. This is not the place to criticize the extraordinary form the reconstruction took. It will suffice to say that Ireland, hitherto regarded as one country, was made two, the most unnatural political and fiscal barrier being erected between its six northeastern counties and the other twenty-six. The smaller area contains a million and a quarter out of the four million and a quarter population of the island. The United Kingdom now consists of Great Britain and "Northern Ireland." The latter sends representatives to the Imperial Parliament and has a Parliament of its own.

The quality of these Ulstermen is best seen in the fruits of their labor. Upon a relatively infertile soil they have developed an amazingly productive agriculture. Their holdings being small, coöperation is essential if they are to maintain a fair standing of comfort. But their intense individualism makes it hard to organize coöperation amongst them. In their non-agricultural life they have to their credit their twin world-famed shipbuilding and linen industries. Here, manufacture is cheapened by the employment of whole families. The problem which confronts Northern Ireland is not that of creating new industries, but of safe-guarding linen and shipbuilding from the ravages of post-war reaction. The "luxury liner" in which the great yards of Harland and Wolff and Workman and Clark specialized is no longer in demand. Ulster linen, the staple industry of the province, has been even harder hit. Since the war its raw material, drawn largely from Russia, has been obtainable only at extortionate prices; the depreciated exchanges of the Continent have enabled French and Belgian competitors to under-sell the Irish manufacturer. Formerly the United States took one half of the Belfast supply. The development of the apartment house system, which leads the American housewife to purchase only such stuffs as she can wash at home, and the new fashion for colored goods, have ousted

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the damask tablecloths, sheets and bed spreads in which Ulster led the world.

As the Boundary Agreement of 1925 relieved the Free State of its liability for a share of the war debt, the political relations between the two areas and the customs barrier are likely to endure for a considerable time. It may be questioned whether the six counties can attain permanent prosperity without free access for their manufactures and imports to the consumers of the twenty-six counties. It is notorious that Belfast industry has always been keenly competitive and somewhat under-capitalized. It has largely availed itself of the deposits of the southern peasantry in the banks. Upon these deposits a very low rate of interest has been paid; and they have been lent at a correspondingly low rate to the farmers, merchants and manufacturers of the North. I am so firmly convinced that the economic future of Ireland cannot be assured until there is active coöperation, and something very like fusion as well, between the Free State and Northern Ireland, that I propose to say very little more about the latter and concentrate upon those issues upon which will depend the answer to the single question: Will the Free State make good?

In the early days of the Irregular revolt Michael Collins is reported to have said he would make rebellion the most unpopular thing that could happen to Ireland. It was a big order in view of seven hundred years of history, but the Free State can claim that for the present generation at least the thing has been done. And the fact that it has been done encourages the hope that we shall get rid of the fallacy, fostered by historical circumstances, that all the economic evils which assail us have their roots in political causes. Even were this true, and it cannot be accepted without drastic qualifications, it by no means follows that the damage caused by politics can be cured by politics. Yet this doctrine had been elevated into a fundamental principle of patriotic faith which it was rank heresy to question. Furthermore, the Free State came into being at a time when agricultural prices were tumbling down, and by a piece of bad luck it had to reckon with a succession of abnormally bad seasons, with an epidemic of fluke among its sheep and cattle, and with restrictions due to the outbreak of foot-and-mouth disease in Great Britain which grievously hampered the transport of livestock across the Irish Channel. Naturally its critics, following time-honored precedents, contended that failure to deliver the economic goods constituted

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a deadly indictment against the new system of political control. A favorite Republican taunt was to compare Free State ministers with Free State pillar boxes in which the British red had been hurriedly overlaid with a thin coating of Irish green.

To do them justice, the rulers of the Saorstat did not permit themselves to be diverted by this clamor from the path they had marked out. In particular Mr. P. J. Hogan, Minister for Lands and Agriculture, far from prophesying smooth things or attempting by soft answers to turn away wrath, cultivates a gift of plain speaking such as no Chief Secretary in the old days who valued either his post or his peace of mind would have dared to use. Like all students who draw their conclusions from the facts of Irish life and not from abstract theories, he bases his hope for the future of our agriculture upon education and organization. In his speech on the estimates for the Department, delivered last May, Mr. Hogan announced that the Government had decided to establish two new university faculties — one for General Agriculture in University College, Dublin, and the other for Dairy Science in University College, Cork; and he insists that nothing must be left undone to ensure that these shall rank at least as high as the faculties of medicine, law or engineering. In elementary education it is now recognized that instruction should be given a rural bias, and though the question of technical training after pupils have left the elementary school presents grave difficulties in a country with a scattered population of small farmers, Mr. Hogan believes that in addition to the existing system of itinerant instructors much may be done by improving the publicity work of his Department, and mobilizing its various technical officers to provide material for the agricultural pages of the daily and weekly press.

In the years that immediately preceded the war Irish farming enjoyed the first relatively normal spell it had known for the greater part of a century. The effect of this was seen in a new keenness for the improvement of technical methods and a recognition of the need for organization on scientific lines. Agricultural Coöperative Societies began to make headway at a rate that astonished the world; the number of agricultural students increased; and the new tenant proprietors threw themselves with notable energy into their work. The war years proved profitable to the farmer, but they were disastrous to the new spirit in agriculture, inasmuch as quality ceased to count, and slovens and

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incompetents could rely on obtaining as high a price for their products as their neighbors who aimed at excellence and good finish. While the rest of the world was setting itself in earnest to repair the effects of this demoralization, the Irish farmer was plunged in a series of worse upheavals as a result of the Anglo-Irish conflict and the armed revolt against the treaty settlement. In the campaign of sabotage waged by anti-treaty bands, farm-buildings and stock were not seriously attacked. But the systematic destruction of railways and of bridges on the main roads, which for a time practically paralyzed communication, and the general chaos and confusion threatened to bleed rural Ireland white. This madness has worked itself out, and the rule of law is now as firmly established throughout Ireland, North and South, as at any time in our history. The fact that the advocates of anarchy enjoyed a brief innings has had one good effect in inducing a healthy disbelief in short cuts, and convincing the farmer that success depends upon his own exertions, directed along lines which have enabled his fellows in other countries to attain prosperity. One of our peculiarities is that wherever the politician can still hope to win support by effective phrases we are slow to accept the reasoning of the economist, however impregnable its logic, and invariably meet it by calling out for a sign. It is almost incredible that in face of the experience of other countries legislation to provide, under penalties, for the grading of butter and eggs should have been opposed. Yet the battle raged loud and long, and less resolute ministers might have quailed before the storm.

The new regulations have been in operation only a few months, and already Irish eggs are at the top of the British market. That the Government are determined to keep them there is shown by the action of the Department of Agriculture, which has recently withdrawn the licenses of some thirty exporters for breaches of the regulations. This drastic procedure has taught a very salutary lesson. At present the Northern Parliament is engaged in amending its legislation in regard to the marketing of eggs, and it is interesting to note that its exporters are pressing strongly for the adoption of the system of grading which prevails in the Free State. Our butter, which had tailed dismally behind that of both Denmark and New Zealand, is also improving its position. When arrangements are completed for bacteriological examinations at the ports, and a national brand is established, there

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is every reason to believe that we shall regain our old supremacy in British markets. In a speech at the Imperial Conference Mr. Kevin O'Higgins defined the new policy in an admirable phrase. "Its aim," he said, "is to insure that the agricultural exports of the Free State shall be consistently good and not occasionally excellent."

Even in Ireland, when the final word in discussions is often spoken by the Doubting Thomases, this fact has silenced objections, and everything goes to confirm the view that the long delayed work of organizing our farmers for production, marketing and credit is at last to be taken seriously in hand. Ministers are recognizing that unorganized farmers cannot make effective use of the schemes provided by the Government for the benefit of agriculture. In the last Budget a grant of £9,000 a year for four years was made to the Irish Agricultural Organization Society, to promote voluntary coöperation amongst farmers on the ground that what the government can do to improve their technical methods very largely depends upon what they do for themselves to improve their business methods. All that is required, not merely to maintain but to improve his position out of all recognition, is that he should bring to the work he has always done a higher degree of technical competence and efficiency.

It must be admitted that our agricultural economy is woefully lop-sided and by its nature tends to exaggerate the defects which have enabled competitors much less favored than we are to leave us far behind in the race. It was no doubt a sound economic instinct that turned the farmer from tillage to cattle-raising. Whereas the price of the crops grown by the Irish tenant for sale has remained practically unchanged throughout the period, the price of cattle has steadily increased until it now stands at four times the 1840 figure. This plain fact disposes of a vast amount of sentimental and patriotic nonsense. At the same time it cannot be denied that cattle-raising, as ordinarily practiced, has been wasteful to an enormous degree. Not only has it done more to fill emigrant ships than a legion of evicting landlords, but it seems to paralyze effort and lower the level of intelligence by making the rural worker an automaton whose exertions are mainly confined to the opening and shutting of gates. These drawbacks are not part of the inevitable price that must be paid under the economic conditions prevailing in Ireland, nor is the remedy, as some argue,

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to be found in breaking away from the British market, a course which, were it possible, would be tantamount to cutting one's throat as a cure for anaemia. Our mistake was not that we concentrated upon flocks and herds, but that by reason of slack organization and haphazard methods we did not concentrate upon them sufficiently or exploit their full possibilities.

When we pass from agriculture, which must ever be the dominant factor in Irish — more particularly in Free State — economics, there is a consensus of opinion as to the need for a better balance between the chief and the subsidiary industries. How this end is to be attained has yet to be determined. As with the land, the worst obstacle that confronts reformers is the assumption that evils which it is claimed were due to politics in the past can be banished by another brand of politics in the present. The truth is we are beginning to understand that the simple solutions favored by popular opinion will not dispose of the problem. Were it merely a question of breaking down barriers and removing obstacles, as is suggested in certain quarters, state action might provide an adequate remedy. Unfortunately, it is not in the power of governments, however well-intentioned, to create economic initiative where this is lacking, to transform at a moment's notice masses of casual labor into skilled artisans or to make good defects in organization and technical equipment.

It is depressing to record that inside the last few months the last two Free State shipping companies have been absorbed by a British combination. One of these companies was developing a direct trade with the continent which promised good results. In any other country it would be regarded as wholly abnormal that a great industry like the cattle trade should not run its own boats across the Channel, more especially as its leaders are continually protesting against the rates imposed by the British lines and the lack of adequate facilities. There are loud complaints about the failure of the Free State to create a mercantile marine. When, however, organizations like the cattle trade fail to show any initiative, it is difficult to criticize the Government for their reluctance to give a lead or to blame small investors who decline to participate in native shipping enterprises.

In pre-war times Irish industries, which, with a few exceptions, lagged far behind outside competitors in efficiency and capital resources, succeeded in holding their own by their ability to produce special types of goods of superior quality. Irish woollen

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mills, for instance, did a large export trade in tweeds, and the high class goods turned out by our hosiery manufacturers were in wide demand outside our shores. Nowadays, in the stress of post-war competition, accentuated by depreciated exchanges and increasing costs of production, our manufacturers are struggling desperately to keep their heads above water. Naturally in such a plight they are ready to snatch at any straw; and the obvious demand is for tariffs which would serve to give them control of the home market.

Free State ministers, all of whom accepted the economic program of Sinn Fein, have no bias against protection, and one of their first acts after the conclusion of the civil war was to appoint a Fiscal Inquiry Committee which included the best known Irish economists to investigate the effect of changes in the measures regulating or restricting imports and exports upon the development of industry and agriculture. The Committee reported that "the volume of industry which is anxious to obtain a protective tariff is small compared with that which desires no change in the existing system," and on strictly economic grounds decided against import taxes. When the Free State became a separate customs area in 1922 the imposition of revenue duties on imported tobacco and cigarettes gave a measure of protection to native manufacturers one consequence of which was that the Imperial Tobacco Company began to build factories in Dublin, and additional employment was provided in this industry. Largely as a result of this it was decided in the Budget of 1924 to place protective duties on boots, glass bottles, soap and candles, motor bodies and confectionery, including jam. A year later the list was increased by the addition of furniture, clothing of all kinds, blankets and metal bedsteads. The Minister for Finance described the duties as experimental, and the Government has now adopted what is known as "selective protection," under which instead of the assumption being that Irish industries are entitled to be safeguarded against competition they are required strictly to prove their case before a Tariff Commission whose members act in effect as a research committee to advise the Cabinet.

Undoubtedly the imposition of duties has led to brisk trade in the protected industries, and almost 80 new factories, large and small, have been erected in various parts of the Saorstat. While this activity is in marked contrast to the stationary or receding position of trade in other industries, President Cosgrave as re-

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cently as July declared in a speech at Limerick, "We have now tariffs on 50 percent of our imports for the past twelve months, and the relative number of people employed bears no proportion whatever to the cost to the country of this experiment." In this connection may be quoted a statesmanlike pronouncement by Mr. Kevin O'Higgins, Minister of Justice, in a tariff debate in the Dail. When the name of Griffith was invoked as if this ended discussion he protested that "the propagandist political writings of any man cannot be accepted simply as the revealed truth requiring no further questioning." According to protectionists the real responsibility for our industrial backwardness rests with ministers who fixed their taxes with an eye to revenue rather than to safeguarding. But it is not disputed that progress in the tariff industries, particularly the boot and shoe and making-up trades, has been seriously retarded by the practical impossibility of securing an adequate supply of skilled operatives.

Together with the difficulty of obtaining long-term credits, either for the extension of existing industries or for new enterprises, this lack of trained workers is perhaps the worst disability under which we suffer. In the past, schemes of technical education have been hampered by financial and administrative difficulties, but the government now realizes more clearly than its predecessors the urgency of the question, and this gives hope that the new Commission set up by the Ministry of Education will be encouraged to go to the root of the problem. Inadequate training is not, unfortunately, a weakness of the rank and file alone. In an angry moment President Cosgrave described Free State business men as "antique furniture," and though this is an exaggeration it was the spice of truth in the phrase that gave it its sting.

Long term credits are as bad a stumbling block in relation to industry as to agriculture. With one or two exceptions Irish industries do not attract Irish investors, and the banking system has not been sufficiently elastic for the financing of new industries. When, following the English precedent, the Saorstat Government guaranteed by means of a Trade Loan Act moneys required for the fixed capital of new enterprises or the extension of old enterprises, the ordinary joint stock banks declined to lend on the government guarantee for a longer period than five years. The difficulty was met by the formation of the Industrial Trust Company Ltd., to which the Minister for Finance in his official capacity is a subscriber. Grants to it have been guaranteed to the

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amount of £100,000, a sum which it is expected will be doubled in the near future.

Up to the present the Free State Government has not been in a position to exercise any real influence over credit policy. There is a general belief that this will be changed as a result of the investigations of the Banking Credit Commission of which the chairman is Professor Parker Willis, late Secretary of the Washington Federal Reserve Board, who has had much to do with the scheme of farm loan banks in the United States. The Minister for Land and Agriculture has declared that "intermediate-term credits for marketing, etc., as well as long-term credits for building, etc., can only be done by some bank or institution set up for that special purpose," and there is no doubt that the views would be endorsed by the Minister for Industry and Commerce in relation to the financing of industrial undertakings. Therefore it is safe to assume that the Banking Commission is devoting both thought and energy to this issue.

Under the new régime all the Free State railroads have been amalgamated into a single company, and a substantial reduction in rates has been effected. Transport charges, it is universally agreed, were so heavy in Ireland as to constitute an unfair burden on industry. But the new system was introduced at a time when the railways were passing through a time of severe stress; and though the situation has been improved by the decision of the workers to accept a cut in wages, it is not yet clear that the unified line has been established upon a sound economic basis. Divided control is carried to even more fantastic lengths in relation to roads than to railways. Thus six miles of suburban highway linking Dublin with Dun Laoghaire (Kingstown) are under the charge of four different local administrative bodies. The Free State authorities are not unaware of the necessity of reconditioning the roads to meet the needs of new developments in motor transport. Already they have expended over five million dollars for this purpose and the current Budget makes provision for an additional grant of ten millions. There is a widespread belief that increased allowances to county councils will not suffice, and that sooner or later trunk roads must be placed under national control. Nevertheless it would be uncandid not to admit that things are steadily improving. Even a couple of years ago Irish roads were a purgatory for the motorist. They resembled the famous Broadway I jolted over in 1879. On a twenty-mile run on one of the

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main highways from Dublin it was not an uncommon sight to find half a dozen derelict machines which had come to grief in the innumerable potholes. Between 1919 and 1923 the only picks and shovels at work on the roads were those of ambushers digging trenches across them, while high-speed military transport cut the surface to ribbons. This damage has now been repaired, and though heavy traffic has increased enormously, the roads throughout the greater part of the country are better than they have ever been. Within the last few weeks the Government has made it mandatory upon the county councils to set up adequate direction posts and warning signals on all main roads, and the work is already in hand. When it is completed the motorist will find Ireland in line with other European countries.

Experts whose opinion cannot be disregarded contend that the real hope of future progress will be found less in efforts to stimulate enterprises which require artificial aid to withstand outside competition than in the creation of entirely new industries which will be in a position from the first to advance along the most approved modern lines. Thus in the Beet Sugar Factory, which is reaching completion in Carlow, the Belgian concessionaires are installing the very latest type of machinery. This industry has the advantage of an agricultural basis, and it is in the development of manufactures arising out of agriculture that we stand the best chance of remedying the evils of our one-sided economic system. As yet we have made scarcely a beginning with the dead meat industry, in spite of the fact that we possess advantages such as few of our rivals enjoy. Our tanneries are few and not of much importance, and though in woollens and hosiery we have made better headway, the almost complete absence of proper organization is a serious drawback. At present the rule is that practically all mills are turning out a wide range of articles, with the inevitable result that costs of production are abnormally high. With concerted action on the part of manufacturers it would be possible to use separate mills for the production of a special type of goods, and thus avoid the wastage entailed by a disorganized mob of small firms, competing not only against outsiders but against one another.

It used to be assumed that outside the Belfast area large-scale production was not possible, inasmuch as it was held to be repellent to the individualistic Irish temperament. No doubt we do excel in work where personality gets free play, and for this reason

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undertakings in which quality counts for more than quantity should make a special appeal to us. A good deal depends, however, on the manner in which mass production is attempted. The two most prosperous concerns in the Free State — the great brewing firm of Messrs. Guinness and the biscuit factory of Messrs. Jacob — are examples of large-scale-industries with a world-wide reputation for efficiency. What is rarer still, they are establishments in which relations between employers and employed are so harmonious that friction of any kind is almost unknown. The same holds good of Henry Ford's Motor Works, now the back-bone of the industrial structure of Cork, whose citizens in spite of this fact show no signs of losing their individualism.

By the singularly bold stroke of embarking upon the Shannon hydro-electrical scheme the Free State Government cut at the root of the popular idea that Ireland's lack of cheap and abundant coal doomed her industrially to hobble along in the rear of her neighbors. If the plan succeeds, — and its endorsement by a tribunal of the foremost European experts is the best tribute to its soundness, — the country stands to recover all that it lost in the age of steam. The proposals put forward by the German firm of Siemens-Schuckert and accepted by the government aim at generating from the Shannon a supply of electricity more than adequate for the needs of the whole of the Free State.

Under the scheme, development is to take place in three stages which correspond with the utilization for the storage of water in the three Shannon lakes, Derg, Ree and Allen. The first or "partial development" stage, only using Lough Derg, will meet early needs. Its estimated cost is 26 million dollars. The whole scheme, to be completed in ten years, will cost 36 millions. In the average year the output will amount to 288 million units. The supply is to be transmitted on high tension lines and will ultimately be distributed through transformers to all Free State cities and towns, but in the first instance to villages which have more than 500 inhabitants. Its authors claim that under the Shannon scheme Dublin will obtain electricity at one-fourth of the price paid in Canada, and opposition from agricultural quarters is countered by the argument that if electricity is ever to come to the farm it must be through a national network such as the Shannon alone can provide.

The power-station cannot be in working order before 1930 at the earliest, in spite of the excellent progress which is being

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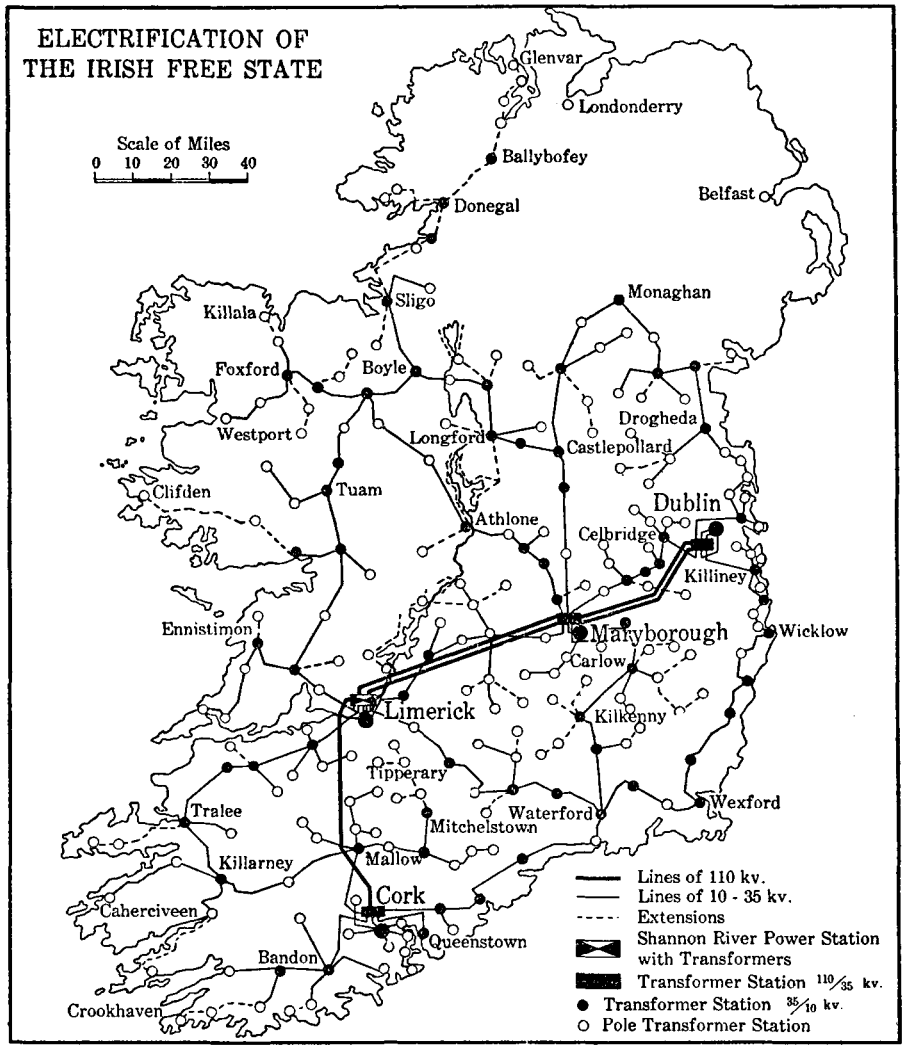
made with the preliminary operations. But it is an interesting fact that continental groups are already making approaches with the object of organizing the rural industries which they calculate will come into existence once a supply of cheap electricity is




available. Even at this stage plans are being drafted for a chain of electro-chemical industries in connection with the Shannon. Low-priced power is the essential basis of these undertakings; and foreign industrialists, who find that under post-war conditions scope for the investment not only of money but of technical knowledge is becoming rather restricted, are for the first time

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giving serious attention to Irish possibilities. Italy's success in applying electric power to the manufacture of artificial silk yarn has not passed unnoticed in the Free State. Though it is recognized that great caution is necessary in entering this field, the Shannon developments, together with the knowledge that there is available a large number of workers trained to deal with fine textiles, have encouraged industrialists to frame plans for the establishment of a factory. In this work, as in most of our new experiments, technical direction must be in the hands of outsiders till a generation of Irishmen have been trained on scientific lines.

The money necessary to finance the Shannon scheme is to be raised by loan. Unlike most European peoples, the Free State has escaped a back-breaking load of national liabilities. Its total debt works out at less than one year's revenue, though the figure will be increased now that the Minister for Finance has announced that non-recurrent expenditure is to be funded. This means a new loan, but it is of good omen that whereas the last was issued at 95 it now stands at 99. While there is agreement that taxation to the tune of 122 million dollars is too high an annual burden, so far no political party has definitely advocated cuts sufficiently drastic in national services to reduce appreciably the Budget demands.

Disturbed labor conditions are often taken by outsiders to be the rule rather than the exception in Ireland. The organized workers supplied not a little of its driving force to the revolutionary movement, and naturally their exertions were directed towards maintaining the standard of living which had been established during the Great War. While wages advanced as steeply, if not as quickly, in Ireland as in Great Britain between 1914 and 1918, since that period, except in rural areas, the Irish worker has been more successful in maintaining his advantage. It is claimed that this higher wage acts as a handicap upon native industries, but the Fiscal Committee reported that the evidence submitted to it was insufficient to enable its members to determine the true weight of this handicap. Experts, who cannot be accused of a bias in favor of labor, hold the view that with an improvement in technical methods and organization, and the provision of adequate capital resources, the present or even higher wage rates could be paid without detriment to production, if not with positive gain, in virtue of the increased efficiency secured.

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The worst troubles of recent years have arisen through domestic differences between various sections of workers, which have now fortunately ended in a complete triumph for the Irish Transport and General Workers Union. Leaders of this organization are anxious to aid in fostering new industries, and have given practical proof of their good-will by consenting in certain cases where evidence of necessity was forthcoming to modify or even waive existing trade union regulations. A well-known authority who has had wide experience in conducting negotiations between employers and employed in the Free State recently stated that "firms which are contemplating industrial enterprise in this country will find labor conditions, with very few exceptions, reasonable as anywhere in the world." A new precedent was recently established by the visit of the leaders of the Labor Party to the Carlow Beet Sugar Factory prior to its formal opening. In the course of their speeches on that occasion, the Labor representatives declared they felt a moral responsibility for the success of a great national enterprise. Given coöperation on the part of the management, they would leave nothing undone to ensure that Irish workers should fulfil their obligations. If we can establish a working agreement between Capital and Labor in the Free State — and the omens are decidedly favorable — we shall do more to increase our prestige in the eyes of the world than by all our political battles.

No account of the Free State's beginnings — no forecast of its ultimate achievement — can be just or approximately accurate without making full allowance for the circumstances in which it came to be. Three wars — the World War, the Anglo-Irish conflict and the civil war — might well have paralyzed effort and banished hope. Every student of Irish life knew that the first fruits of self-government must be disillusion. When the dream of centuries was realized, it was accompanied by the partition of the country against the wishes of the vast majority of the Irish people. If these things be duly weighed, I do not think it is rash to prohesy that the Irish Free State *will* make good. If it does a new Ireland will be born.

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# WHO BUYS FOREIGN BONDS?

*By Dwight W. Morrow*

A FEW months ago I was reading a *Chicago Tribune* on the train. With some surprise I found recorded on the financial page the listed prices of 128 different issues of foreign bonds. I have a great respect for the judgment of the newspapers. They print the news that they think people are interested in. When I noticed that this great newspaper which serves the Middle West was recording daily the market transactions in 128 different issues of foreign bonds, it seemed to me a fact of some significance. I found myself speculating as to the number of issues of foreign bonds which had been quoted by the *Chicago Tribune* in the edition published exactly ten years before the date of the paper which I was reading. I subsequently learned from the Editor that the number was six. The comparison between the number of foreign issues quoted then and now is an interesting commentary on what has happened in the field of foreign bond investment in the past ten years.

Examining that long list of 128 foreign bonds in the *Tribune*, I discovered that governments, municipalities or corporations of some 30 different countries were represented — countries scattered all over the world. The list included the countries of our own hemisphere, Canada, Cuba, Brazil, Argentine, Chile, Peru, Bolivia, Uruguay; nations abroad with whom we fought and against whom we fought, Great Britain, France, Italy, Germany, Austria, Hungary; governments in the Far East such as Japan and the Dutch East Indies; and cities as widely separated as Copenhagen and Montevideo, Tokio and Marseilles.

The contemplation of the extent and variety of America's investment in foreign bonds, gives rise to three questions: Who buys these bonds? Why do they buy them? What do they get when they have bought them?

Who buys foreign bonds? This may seem to be an easy question to answer, but it is not. When a foreign loan is offered to American investors, the managing house in New York, or Boston, or Chicago enlists the coöperation of perhaps five hundred or a thousand investment bankers scattered all over the United States. It is the function of the local investment banker to find the man or woman with savings and to show that man that it is to his

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interest to exchange his savings for the promise of a foreign government. It is this ultimate saver who really extends the credit to the foreign government. The managing house rarely meets the ultimate buyer of the bonds; it is to the five hundred or thousand investment houses that we must go to find his name and characteristics. These investment houses have developed their own cliéntèle of investors. That cliéntèle is changing constantly, dependent upon the character and the ability of the investment house and the record for successful judgment that it has established. Moreover, it is considered somewhat impertinent for one to ask an investment house to whom the bonds are sold, as such information is carefully guarded. The local investment bankers have tried to teach certain people to save, and they expect to attract the future savings of these people by selling them more bonds. They do not want investigators prying into that part of their business without a very good reason.

In the summer of 1924 when I was asked to speak at Williamstown at the Institute of Politics, I tried to find an answer to this question of who buys foreign bonds. Taking two recent foreign government loans, the issue of which had been managed by the firm of which I have the honor to be a member, we inquired of three investment houses doing business in different parts of the country as to the number of persons to whom they had sold these bonds. The loans were the $25,000,000 Austrian Government Guaranteed Loan and the $150,000,000 Imperial Japanese Government External Loan of 1924. The results of our inquiry showed that through these three houses 409 people participated in the Austrian Loan, the average investment of these 409 people being $2,350. Through the same three houses, 1,741 people participated in the Japanese Loan, the average investment of these 1,741 people being $3,100.

The results of the inquiry as presented to the students of international relations at Williamstown seemed to be of interest, and later in 1924, at the request of the President of the Investment Bankers Association, we extended the inquiry to 24 houses (still covering only the Austrian and Japanese loans, however). This investigation confirmed, in a general way, the results of the earlier one. For one thing, it disposed of the idea that offerings of foreign bonds are taken solely by wealthy individuals or large institutions. It showed, on the contrary, that these

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foreign bonds are being bought by large numbers of persons of moderate means. The 24 houses had 2,965 customers who made an average investment of $2,994 each in the Austrian bonds. The 24 houses had 8,211 customers who bought Japanese bonds, making an average investment of $3,905 each.

Finally in the spring of 1926, we broadened the inquiry by obtaining a similar analysis of their sales of three additional foreign government loans. The results of the earlier inquiries might perhaps be subject to criticism by statisticians, because they covered so few bond issues and because, particularly as to the first inquiry, so small a "sample" of the investment houses which distributed the loans was taken. But in this latest inquiry five loans aggregating $380,000,000 were covered. Moreover, the 24 houses sold an aggregate amount of $91,031,800 of these five issues, or about 25 percent of the total amount. These 24 investment houses who courteously furnished us with the sales analysis which we sought are located in different parts of the country from Portland, Maine, to Portland, Oregon, and from Minneapolis to New Orleans. From our own knowledge of the character and distributing ability of the investment houses of the country, we feel reasonably confident that these houses selected for analysis constitute a fairly representative cross section of the entire group of investment houses throughout the country.

Our analysis of the sales of these 24 houses covered five separate foreign government loans, the issue of which was managed by J. P. Morgan & Co., alone or with associates. These loans were offered to the American public within the past three and one-half years: the $25,000,000 Austrian 7's in June, 1923, the $150,000,000 Japanese 6½'s in February, 1924, the $110,000,000 German 7's in October, 1924, the $45,000,000 Argentine 6's in June, 1925, and the $50,000,000 Belgian 7's in June, 1925. The results of this inquiry are shown in the table printed on the following page.

This table shows, first, the proportion of each issue sold by the 24 houses. Next, is shown the total number of sales and the total amount sold of each issue by the 24 houses, and the average amount of each sale made by the 24 houses. If we may assume that these houses constitute an adequate "sample," we may extend these figures to cover the entire amount of each issue and obtain the following results:

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DISTRIBUTION OF FIVE FOREIGN GOVERNMENT BOND ISSUES BY 24 REPRESENTATIVE AMERICAN BOND HOUSES

| | $25,000,000* Austrian Government Guaranteed Loan 7% Bonds (June, 1923) | $150,000,000* Japanese Government External Loan 6½% Bonds (February, 1924) | $110,000,000* German External Loan 7% Bonds (October, 1924) | $45,000,000 Government of the Argentine Nation External 6% Bonds (June, 1925) | $50,000,000 Kingdom of Belgium External Loan 7% Bonds (June, 1925) |
|---|---|---|---|---|---|
| *Proportion of Entire Issue Sold by the 24 Houses* | 35.5% | 21.4% | 22.2% | 33.0% | 21.3% |
| *Total Sales:* | | | | | |
| Number of Sales | 2,965 | 8,211 | 7,654 | 3,431 | 2,832 |
| Amount Sold | $8,876,800 | $32,069,200 | $24,428,300 | $14,872,500 | $10,785,000 |
| Average Amount of each Sale | $2,994 | $3,905 | $3,194 | $4,335 | $3,808 |
| *Sales $100 to $5,000:* | | | | | |
| Number of Sales | 2,671 | 7,265 | 6,952 | 2,724 | 2,453 |
| Percent of Total Number | 90.1% | 88.4% | 90.9% | 79.4% | 86.6% |
| Amount Sold | $5,579,900 | $14,170,800 | $13,099,900 | $6,351,500 | $5,541,500 |
| Percent of Total Amount | 62.9% | 44.2% | 53.6% | 42.7% | 51.4% |
| *Sales $5,100 to $10,000:* | | | | | |
| Number of Sales | 207 | 600 | 433 | 532 | 269 |
| Percent of Total Number | 6.9% | 7.4% | 5.6% | 15.5% | 9.5% |
| Amount Sold | $1,761,900 | $5,305,300 | $3,847,400 | $4,132,500 | $2,483,500 |
| Percent of Total Amount | 19.8% | 16.5% | 15.8% | 27.8% | 23.0% |
| *Sales over $10,000:* | | | | | |
| Number of Sales | 87 | 346 | 269 | 175 | 110 |
| Percent of Total Number | 3.0% | 4.2% | 3.5% | 5.1% | 3.9% |
| Amount Sold | $1,535,000 | $12,593,100 | $7,481,000 | $4,388,500 | $2,760,000 |
| Percent of Total Amount | 17.3% | 39.3% | 30.6% | 29.5% | 25.6% |

* *Part of a larger international loan.*

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| *Name of Issue* | *Indicated Total Number of Buyers* | *Indicated Average Amount of Each Sale* |
|---|---|---|
| Austrian 7's | 8,350 | $2,944 |
| Japanese 6½'s | 38,412 | 3,905 |
| German 7's | 34,440 | 3,194 |
| Argentine 6's | 10,381 | 4,335 |
| Belgian 7's | 13,130 | 3,808 |

The above figures confirm those of the earlier inquiries as to the large number of sales made and the moderate average amount of each sale.

The table opposite next shows a classification of the sales of the 24 houses into three groups according to the size of the sale made. That we are dealing with a multitude of small investors rather than with a few large investors is further demonstrated by this classification of the sales. It will be seen that from 80 to 90 percent of the number of sales in the case of each issue were made to investors whose purchases were limited to $5,000 or less. Only from 3 to 5 percent of the number of sales for each issue were made in amounts over $10,000. It is clear that in number the large investors were relatively unimportant.

But the consideration of only the number of small and large investors might present an exaggerated impression of the importance of the small investor. This is unnecessary, as he is quite important enough without any exaggerating. There is, obviously, a difference between a comparison of the number of small and large investors and a comparison of the aggregate amounts purchased by each group. The number of small investors might be very great but a few very large sales might still result in making the large investor the more important factor in disposing of an issue.

Our analysis of the sales of the 24 investment houses also covered, therefore, the aggregate amount of bonds sold to investors in each of the three groups, from which could be ascertained the ratio which the aggregate amounts sold in each of the groups bore to the total amounts of each issue sold by the 24 houses. Examining them, we see that a good deal depends upon where the line is placed between the small and the large investor. If we draw the line at $5,000 it is apparent that, while the group of large investors taking more than $5,000 each is relatively small in number, it is by no means negligible with regard to its aggregate purchases of foreign loans. Com-

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paring the two groups, both on the basis of number of buyers and on the basis of the total amounts of the issues purchased, we have the following summary from the figures:

| *Name of Issue* | *Percent of the Total Number of Buyers who took $5,000 or less* | *Percent of the Total Amount of the Issue Purchased by Buyers who took $5,000 or less* |
|---|---|---|
| Austrian 7's | 90.1% | 62.9% |
| Japanese 6½'s | 88.4% | 44.2% |
| German 7's | 90.9% | 53.6% |
| Argentine 6's | 79.4% | 42.7% |
| Belgian 7's | 86.6% | 51.4% |

I present all these statistics with some hesitation because they necessarily are based upon a method of sampling and I well realize how difficult it is to obtain representative samples for any statistical work, and how difficult it is to draw proper conclusions from such samples without danger of distortion. Having made such reservations, however, it would seem reasonable to draw the conclusion from the statistics presented, that more than 85 percent of the people who bought these foreign bonds purchased them in small amounts ranging from $100 to $5,000, and that approximately 50 percent of the total amount of these foreign issues was purchased by these small investors.

The investment in these foreign loans represents the savings of the person who spends less than he produces, and thus creates a fund which he is able to turn over either to a domestic or to a foreign borrower if he is satisfied with that borrower's promise. These savers live all over the United States. When we talk about the person who is investing in foreign bonds we are not talking about a great institution in New York or Chicago or Boston. We are talking about thousands of people living in all parts of the United States. We are talking about school teachers and army officers and country doctors and stenographers and clerks. The man who invests in a foreign bond may be rich or he may be poor. That is all according to our standard. Fundamentally, however, he is a person who has saved something, who is doing without something today in order that he or his children may have something tomorrow. Before he invests in the bond he has money which gives him a present command over goods and services. He is willing to transfer this present command over goods and services to the borrower, thereby giving to the bor-

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rower the right to buy goods and services. Of course, the investor resumes the command of goods and services at some future time when he is repaid his loan.

The person who invests in foreign bonds is probably the same person who invests in domestic bonds. All that the investment banker in a large city or in a small city does, all that an international banker does, is to gather up little rivulets of savings and put them at the disposition of somebody who needs the capital and is willing to make a dependable promise to pay interest upon that borrowed capital from time to time and to repay the principal at the due date. The answer to the question about who buys foreign bonds is clear. The purchasers are people all over the United States who are investing their savings. If the investment in these bonds is helping American foreign trade, it is this saver of money who should be thanked. If the investment in these bonds is helping the restoration of the rest of the world to a normal condition, it is this saver of money who is entitled to the credit.

Now, the second question, — why did these people lend money to Austria, or Japan, or Germany, or Argentine, or Belgium? Here, statistics are of little value. Men have not yet found a method of measuring the motives of other men. In fact, it is difficult enough to know our own motives. Perhaps, however, we may be helped in answering our question if we ask another question. Why does anybody make an investment in one particular security rather than in another? The considerations in the minds of most investors are, first, the safety of the principal and, second, the size of the interest yield. It should be borne in mind that the investor is the man who has done without something. He has done without something that he might have presently enjoyed in order that, in the future, his family may have some protection when he is gone, or in order, perhaps, that a son or a daughter may go to college. This investor wants to be certain that he will continue to receive income on the bond which he buys. He wants that income as large as is consistent with safety. Above all, he wants the principal returned to him on the day of the maturity of the bond.

It cannot be asserted, however, that sentiment plays no part in our investments. It does. Many men in this country bought German bonds, after the successful launching of the Dawes Plan, not only because the interest rate was attractive and the principal seemed secure, but because they felt that they were thus asso-

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ciating themselves in a fine venture to help Europe back on her feet. But after all proper weight is given to such considerations as these, the question of safety of principal and of interest, and the attractiveness of the rate of interest, remain the considerations uppermost in the mind of a man who has done without the present use of his own money and is investing that money in order to protect the future of himself and of his family.

If that be true, how is the investor to form an intelligent judgment as to the safety of his investment? How does the man in the Middle West, who responds to an invitation from his investment banker to buy an Austrian or a Japanese bond, know that his investment is safe? If he should be asked this question, I think that he would put in the very forefront of his reasons for making the investment the fact that he had confidence in the banker who offered him the investment. After all, the people who buy bonds must rely largely upon the judgment of the offering houses. They must believe that their investment banker would not offer them the bonds unless the banker believed them to be safe. This throws a heavy responsibility upon the banker. He may and does make mistakes. There is no way that he can avoid making mistakes because he is human and because in this world things are only relatively secure. There is no such thing as absolute security. But while the banker may make mistakes, he must never make the mistake of offering investments to his clients which he does not believe to be good. Moreover, when a banker directs savings into an investment he should believe that the borrowed money is to be put to a constructive use. To the cynic that may sound somewhat idealistic. It is, however, just plain common sense. No banker who wants to stay in business throughout the years wants to lend money to people who are not going to use it for a constructive purpose. The use to which the money is put is a very important factor in determining the ability of the borrower to pay his interest promptly and to return, at maturity, the principal.

An attempt has been made to answer the first two questions — who buys these foreign bonds and why do they buy them? There remains what is perhaps the most interesting question: what does an investor get when he buys a foreign bond? In 1924, 40 persons in a Western city put $100 apiece into a Japanese bond maturing in 1954. What did those people get for their money? They got a *promise*. And mark you, that promise was the promise of a group

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of people associated together on the other side of the earth. Moreover, so far as the promise relates to the payment of the principal of the bond, the promise does not mature in time to be kept by the particular members of the group who originally made it. It is a promise designed to be kept by the children of men now living. Yet somehow or other the banker who offers that bond and the investor who buys that bond rely upon the people of Japan taxing themselves a generation from now in order to pay back the principal of that loan to the children of the person who invests in the bonds today. At first blush it is a startling idea. It is particularly startling at this time when so many people are saying that the various nations of the earth have lost faith in each other. Here we have printed in a Middle Western newspaper the record of the day's dealings in 128 foreign bond issues. Individuals in America are taking their own money, with its present command over goods and services, and surrendering that command to nations on the other side of the earth, and they receive in exchange for it a promise. The question may be asked: nothing *more* than a promise? To which answer may be made: nothing *less* than a promise.

I remember reading some years ago a letter of Thomas Bailey Aldrich written to William Dean Howells. Aldrich is writing of a friend who has just died, and whose body is resting in "a dismal London burying ground." He says to Howells that it is not worth three pins to be a great novelist, or a great general or a great anything else. Then he winds up his letter with this whimsical expression: "Yet with a sort of hopeful vivacity I have just bought two 5 percent railway bonds that expire in 1967. Who will be cutting off the coupons long before that? Not I." There was Aldrich, despondent because of the transitoriness of life, taking his savings and putting them in railway bonds that matured long after his life would end. Every day investors are buying bonds, domestic and foreign, although they have every reason to wonder who will collect the coupons. Human lives stop. Promises go on. The civilized world today is run on the basis of a belief in promises. Whatever our doubts about the meaning of modern civilization, we may at least take some comfort in the trust which men show in each other's promises.

It was not always so. Early trading began with physical things. The man who had something to sell kept a tight hold with one hand upon the thing he was giving up until he got a tight hold

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with the other hand upon the thing he was getting in exchange for it. Little by little men learned to trust one another. Markets were developed in which men sold by samples. In such a sale the seller must produce a sample of the thing which he is contracting to sell; the quantity agreed to be sold is later delivered and the buyer makes payment therefor. Mutual promises had to be kept to make such a trade effective. Finally, we have reached the stage of civilization when we buy and sell promises. No man can play an important part in modern commercial civilization unless he respects his promises in letter and in spirit. That is true in all of our day to day transactions. We want no commercial dealings with people who cannot or will not keep their promises. The keeping of the promise is the fundamental virtue of commercial life. Therefore, when one says that the purchaser of a foreign bond has nothing *more* than a promise, the answer can be made in all seriousness that he has nothing *less* than a promise.

It is apparently believed by some that loans to foreign governments made by our citizens throw upon our own Government the responsibility of using the armed forces of our Government for the purpose of collecting the debts. From leading government officials of both Great Britain and the United States we have had in recent years quite clear pronouncements upon this question. In a debate in the British Parliament in December, 1902, during the controversy with Venezuela, Mr. Balfour, the Prime Minister at the time, said:

"I do not deny, in fact I freely admit, that bondholders may occupy an international position which may require international action; but I look upon such action with the gravest doubt and suspicion, and I doubt whether we have in the past ever gone to war for the bondholders, for those of our countrymen who have lent money to a foreign government; and I confess that I should be very sorry to see that made a practice in this country."

Mr. Root, then Secretary of State, speaking in Buenos Aires in 1906, made the following statement:

"The United States of America has never deemed it to be suitable that she should use her army and navy for the collection of ordinary contract debts of foreign governments to her citizens. For more than a century the State Department, the Department of Foreign Relations of the United States of America, has refused to take such action, and that has become the settled policy of our country. We deem it to be inconsistent with that respect for the sovereignty of weaker powers which is essential to their protection against the aggression of the strong. We deem the use of force for the collection of ordinary contract debts to be an invitation to abuses in their necessary re-

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sults far worse, far more baneful to humanity than that the debts contracted by any nation should go unpaid."

The foregoing expressions of Mr. Balfour and Mr. Root are important not only because of the high official positions that these eminent statesmen held at the time but also because of the great weight which properly attaches to their personal opinions upon a question of this kind. But however valuable such expressions may be, either as a statement of the national thought at the time or as a means of influencing the public thought of the peoples to whom they are addressed, such expressions do not necessarily constitute international law or even a binding rule of conduct. The declarations of statesmen are perhaps more likely to express the ideals than the practices of nations. International law, however, is a gradual growth, based upon custom and conduct. When customs become so well settled that their violation excites the general disapproval of civilized men, we have a real basis for international law. Now, he who seeks to know the custom of nations with respect to the enforcement of contract debts against another government enters a most difficult field. It is hardly surprising that the causes of war are never fully known to the actors. But the long, painstaking work that must be done by unbiased historians before an approximation of the truth can be ascertained must make any candid person almost despair of a complete conviction as to causes. I have not been able to find a clear case of a nation going to war for bondholders. It is only fair to say, however, that contract claims against a foreign government have often been joined with claims for other injuries, or with larger questions of political policy, and that so joined they have been made the basis of armed intervention. I have immediately in mind the military operations against Mexico in 1861, against Egypt in 1880, and against Venezuela in 1902.[1]

I have neither the competence nor the desire, however, to discuss from the point of view of the international lawyer or the historian this alleged practice of using armed force to collect contract debts. A difference will readily be noted in the treatment of claims arising out of injuries inflicted upon persons or upon their physical properties and claims growing out of con-

[1] Mr. Hartley Withers, formerly Editor of the London *Economist*, apparently believes that the default in the Egyptian bonds was used for a political purpose. He states that "the bondholders were certainly benefited, but it is my belief that they might have whistled for their money until the crack of doom if it had not been that their claims chimed in with Imperial policy." *International Finance* (1916), p. 104.

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tracts. Where the wrongful act of a foreign government inflicts injury upon a person or upon his physical property, the law of nations seems to recognize the propriety of a demand for reparation. Contract claims, however, have not been treated in the same way, though nations have on occasion made official and unofficial representations regarding violations of contracts and failure or refusal to pay bonded indebtedness. They have also broken off diplomatic relations with the delinquent country as a means of enforcing payment. Nations have also repeatedly submitted bond claims to arbitration. They have also, in rare cases, used measures of force short of war, such as reprisals and that curious procedure known as pacific blockade. President Jackson, in 1834, in connection with certain damage claims not related to bond obligations, actually recommended reprisals. And in 1902 Great Britain, Germany and Italy enforced certain demands against Venezuela, which included the payment of bond obligations, by a pacific blockade. The advancing interest of civilized governments in this whole question is evidenced by the action taken at the Second Hague Peace Conference in 1907. That conference adopted a Convention respecting the limitation of the employment of force in the recovery of contract debts the pertinent part of which reads as follows:

> "The Contracting Powers agree not to have recourse to armed force for the recovery of contract debts claimed from the Government of one country by the Government of another country as being due its nationals.
>
> "This undertaking is, however, not applicable when the debtor State refuses or neglects to reply to an offer of arbitration, or after accepting the offer prevents any 'compromis' from being agreed on, or, after the arbitration, fails to submit to the award."

This Convention seems to assume that there was a right to use armed force to collect contract debts before the adoption of the Convention. Certainly, if Mr. Root is correct, no such right was ever exercised by the United States. What is perhaps more important, the second paragraph seems to imply that a formerly existing right to use force to collect contract debts is still to survive if and when the specified conditions are applicable. It is not surprising, therefore, that very generally the Latin-American countries in adhering to the Convention made reservations which negatived their consent to the use of armed force against them even though the conditions of the second paragraph had come into existence. Although some critics of this Convention have

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questioned whether the subject was left in an entirely satisfactory situation, there can be no doubt that the delegates to the Convention were earnestly seeking to put some limitation upon the use of armed force which had not been accepted by all nations theretofore.

I am writing, however, from the point of view of the investor. Investors, as much as any group of people in the community, are interested in seeing the policy announced by Mr. Root in 1906 scrupulously carried on. Investors who buy foreign loans are in a position to appreciate what a fruitless remedy for breach of contract war is. The establishment of the principle that nations are justified in going to war where the sole issue is the collection of a debt would be not only most hurtful to the nation at large, but, in the long run, would prove injurious to the property interests of the bankers who sell and the investors who buy foreign government loans. Is there any one who thinks that if a man owes him money and cannot pay it, there is profit in going out and killing the debtor? Entirely apart from the immorality of putting human lives to the hazard of modern war where the sole issue is a pecuniary claim, there is a conclusive practical reason against such a source in that war in the great majority of cases does not, and cannot, accomplish the desired result.

Loans are made to foreign governments in reliance upon the capacity and the good faith of those governments. The intelligent investor recognizes that in the long run a government which defaults upon its obligations hurts itself even more than it hurts its creditors. Even in cases where specific taxes or customs are allocated for the service of a loan, the main reliance of the creditor must be upon the desire of the debtor government to maintain the particular revenues and keep them available. Even when a foreign expert is placed in charge of revenues, the arrangement is helpful only when made with the hearty concurrence of the debtor government, and with the belief and expectation on the part of the debtor government that the fiscal arrangement will redound to its own advantage.

If the foregoing be true, how safe are these investments? To my mind that inquiry is much the same as an inquiry as to the safety of a domestic bond. Some domestic bonds turn out to be good and some turn out to be worthless. There is no reason to expect that it will be otherwise with foreign bonds. Those nations who are borrowing in America because they actually need the

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money for a constructive purpose; who have a solidarity of national feeling and a sense of the meaning and the value of national credit; who are not incurring obligations beyond what may fairly be considered their capacity to handle; — all those nations may be expected to pay their debts. Here again the responsibility rests heavily upon the investment banker in recommending investments. The banker must never be lured, either by the desire for profit or by the desire for reputation, to recommend an investment which he does not believe to be good. But, fundamentally, the reliance of bankers and investors is upon the capacity and, above all, upon the good faith of the foreign government. The foreign government must be able to pay, and it must want to pay.

If it is true that it is upon good faith that lenders to foreign governments primarily rely, it is no less true that it is upon good faith that lenders rely in almost all of their domestic dealings. Of course, there is a sanction ultimately applicable to domestic contracts. The proper legal steps may be taken; the breach of the contract may be proved; and execution may be issued through the sheriff. But we do not in practice put much reliance upon the help of a sheriff in enforcing contracts. We do not willingly deal with one upon whose property we expect to levy execution. When we need the sheriff to help collect a loan, we recognize that our venture has turned out a failure. We are then simply trying to save some planks from a shipwreck. In the overwhelming majority of business transactions, we rely upon the ability and the willingness of the debtor to pay. On no other principle could modern business be conducted.

There is no international sheriff. But there still remains our reliance upon good faith, our reliance upon that law which is older than statute law — the acknowledged custom of mankind. The credit of governments is not easily built up. It may easily be shattered. And it must never be forgotten that there are rules of conduct accepted by the silent approval of civilized man, the breach of which hurts the one committing the breach much more than the one against whom it is committed. If good faith cannot be relied upon it is better that the loan be not made. The words with which Hugo Grotius closed his great book more than three hundred years ago are true: "Not only is each commonwealth kept together by good faith, but that greater society of which nations are the members. If faith be taken away the intercourse of men is abolished."

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# DOWNING STREET AND ARAB POTENTATES

*By L.*

THE pacts of amity between the British Government and Sultan Ibn Saud, recently concluded at Bahra through Sir Gilbert Clayton, and the treaties subsequently concluded with the Imam Yahia of the Yemen, will not fail to leave their impress upon the development of Great Britain's future policy in the Middle East. Until now that policy has undergone numerous transformations without ever assuming a definite conclusive shape. Superficially, the Bahra agreements represent nothing unusual in the diplomatic relations between England and Arabia. They have long been under consideration by the Arab experts of Downing Street, and Sir Gilbert Clayton, late Chief Secretary to the Government of Palestine, was only responsible for putting into technical shape and wording what had been achieved through a protracted negotiation. But having been concluded at an historic hour to the movement of Arab independence, as well as to the consolidation of the Middle Eastern policy of Great Britain, these agreements are a landmark of great consequence in a complex diplomatic chapter.

When Great Britain assumed responsibilities for the new Middle Eastern Empire, public opinion, as well as expert political opinion, was very much divided as to the merits of the fresh imperial burden. Two schools were predominant. On the one hand were the experts, most of them Tory in their political philosophy, whose most authoritative spokesmen were Colonel Lawrence and Miss Gertrude Bell. They maintained that a policy of annexation, whether disguised or outspoken, was not in accord either with the spirit of the Mandate or indeed with the dictates of British *realpolitik*. From the very outset they demanded a larger measure of true independence for the newly created Arab kingdoms and Emirates. They were most of them personally responsible for the new acquisitions and commitments, and, apart from the ethical issue involved in giving pledges solemnly and withdrawing them quietly, they foresaw a constant decline in British prestige in the East if the pledges were to be unconditionally violated. The other influential section of opinion, including many Liberals, deemed the grant of any protection with-

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out direct or indirect annexation an unjustified extravagance, an imperial burden which Britain could ill afford to undertake on the morrow of the World War.

It would not be incorrect to say that the comparatively rich bookshelf dealing with the Arab problem of Great Britain has failed to produce one complete, thorough and unbiased survey of the diplomatic transactions between England and Arabia. Much of the material pertaining to what is today and will probably continue to be for another few decades the most vital imperial problem of Great Britain is buried in secret archives in the Foreign and Colonial Offices and is not likely to be divulged to the public except perhaps at the hands of the historian a few generations hence. This mystery enshrouding Anglo-Arab relations may have its justification in the undependable character of most of those who were responsible for the conduct of the foreign policy on the Arab side. Time and again supposedly fully accredited representatives were found to be nothing of the sort, and the story of the recall of Dr. Nagi El Assil, a young Syrian politician who represented King Hussein at the Court of St. James, is still fresh in the memory of all interested. It is just this semi-Machiavellian character of the conduct of Arab policy which is responsible for much of the talk about breaches of promise and inconsistency on the English side. Thus when the dynasty of Sheriff Hussein was recognized as the only family authorized to speak for the Arab world, and Arab Emirs with large followings were literally ignored, there was an outcry that the British Government had laid its bets on the wrong horse. And when Feisal was selected as the most acceptable member of that family, when he was given the throne of Iraq, the Foreign Office was denounced as biased and shortsighted. When subsequently the aged and astute monarch, Hussein, was politely if firmly asked by Sir Austen Chamberlain to quit Arab territory and repair to Cyprus the usual accusation of inconsistency was again heard.

Let us look at the facts and see, if possible, whether the new combinations that have come into being represent a radical departure from the policies laid down by the draftsmen of the previous arrangements.

In 1921 the Lloyd George Cabinet decided to form a Cabinet Committee "to make recommendations for the formation of a new department under the Colonial Office to deal with Man-

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dated and other territories in the Near East." That Committee, which was assisted by military, naval and air experts, had the advantage of studying the numerous administrative, political and strategical problems on the spot and of obtaining the advice of those responsible for the conduct of affairs in the various territories: the High Commissioners of Palestine and Iraq (then Sir Herbert Samuel and Sir Percy Cox) and the Residents of Aden and Bahrein. The Committee after prolonged consultations arrived at certain conclusions and embodied its recommendations in a report which to this day has not seen light, though it may safely be regarded as the most important document for the study of current tendencies in the Near East.

That Committee acted through several sub-committees and we are not here concerned with the sum total of its recommendations. However, there was one sub-committee (headed by the Colonial Secretary himself, then Winston S. Churchill, and comprising also Sir Percy Cox, Colonel Lawrence and Gen. Scott) whose main function it was to reconsider the political orientation of Great Britain towards the various Arab potentates in the Arab peninsula, with particular reference to the question of the political subsidies until then distributed in a most unsystematic, haphazard way.

This Commission arrived at the following conclusions: That Ibn Saud be paid £100,000 per annum; that Fahdad Bey be paid 240,000 rupees; that King Hussein be paid £100,000 per annum; that the Idrissi be paid £12,000 per annum. The following reasons were given:

*Ibn Saud*, the greatest factor in Arabian politics, owes his position entirely to his skill and personality. He has a treaty with the British Government and his attitude has always been friendly. His capacity for doing harm is great. From his central position he can invade south-west Mesopotamia, Koweit and Jebel Shammar when he pleases. The Akhwan, a militant sect of his subjects, are always urging to attack those of his neighbors who belong to the ordinary Moslem sects. Four such expeditions have lately taken place. Ibn Saud himself is a moderating influence. He remains at the head of the Akhwan movement in a position to restrain their excesses mainly by a wise use of the British subsidy, which will probably equal the total revenue of his government from other sources.

As conditions for the subsidy Ibn Saud had to promise to

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refrain: 1, from armed action against Iraq; 2, from armed action against Koweit; 3, from armed action against the Hejaz.

The original subsidy given Ibn Saud was only £60,000; it was increased to £100,000 a year in the hope that he would gain greater ascendancy over his followers and thus be in a position to comply with British wishes more exactly. Friendly relations between Ibn Saud and Feisal, and Ibn Saud and King Hussein, were urged by the Commissioners. Moreover they countenanced the assumption by Ibn Saud of the title of Sultan of Nejd and recommended his recognition as such.

*Fahdad Bey* is the Chief of the Ammarath Ganazeh on the Mesopotamian border west of Bagdad and Kerbeleh, west of the Euphrates. The Government of India used to pay him a compensation of 240,000 rupees in return for services to them. The air route from Palestine crosses his tribal territory for the last two hundred miles of its course, and his assistance is indispensable to its safe working. These reasons recommend the continuation of the subsidy.

*King Hussein*, though militarily less powerful than Ibn Saud, concerns Britain as the guardian of the Holy Places and because of his attitude towards the decision of the Allies regarding Arab areas. Unless he accepts these decisions in their newly modified form he will be a cause of unrest in the mandated territories and a nuisance in the Hedjaz. The Moslem world believes London created him and will blame Great Britain if, with the disappearance of the Turks from Arabia, pilgrimage conditions became worse. Hussein has not enough receipts today to afford to run a good pilgrimage, nor will he have until large numbers of pilgrims from overseas begin to arrive. Adverse reports on conditions in Mecca have unfortunately deterred them. To avoid jealousy between him and Ibn Saud, and to break the vicious circle, the Commission recommended an equal subsidy to King Hussein so as to enable him to put his house in order.

The grant of the subsidy to King Hussein was conditional upon his agreeing to: 1, ratify the Treaty of Versailles and sign and ratify the Turkish treaty; 2, recognize and respect British treaties with Ibn Saud and the Idrissi and refrain from all aggressions against them; 3, improve pilgrimage conditions, with especial reference to public safety, sanitation and protection of the rights of pilgrims; also to improve the water supply and hospitals and to reorganize the hospitals in Jedda; 4, recog-

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nize the rights and interests of British subjects in the Hejaz; 5, accept a British Consul and Agent at Jedda and, if necessary, a British Moslem Agent at Jedda; 6, prevent the Holy Places from becoming a focus for anti-British or Pan Islamic intrigue; 7, prevent the Sheriffian family from taking anti-French action and in particular restrain his followers and tribes in the Syrian area from all manifestations against the British and Allied governments.

It was anticipated that the institution of representative governments in Mesopotamia and Transjordan would satisfy King Hussein's expectations and persuade him to accept British advice as in the past. The amount was to reduced when the pilgrimage was restored and the Hejaz again became solvent.

*The Idrissi* was the first Arab ruler to join the British during the war. Under the treaty of 1917 the British were to help him with arms and ammunition both during the war and afterwards, and, if he was expelled, to provide him an asylum and to use every endeavor to restore him to his former position without any dimunition in his status. In return, the British acquired certain definite rights and excluded other Powers from exercising similar influence. He was on friendly terms with Ibn Saud, and at the same time there was some inconvenience in securing that friendship. He was the inevitable enemy of the Imam of Sanaa, an old-established, rich and powerful prince of Yemen, formerly a Turkish subject, but now independent. In order to persuade the Imam to follow British advice they had to offer him a satisfactory settlement of their frontier line and a subsidy of some £2000 a month. The Imam's private wealth made him less amenable to this sort of influence than Ibn Saud. The strongest factor in the hands of the British was the holding back of the Idrissi from further advances into Imam Yahia's territory. As the Idrissi was in pressing financial circumstances it was recommended that a subsidy of £1000 a month be paid him on condition that he maintain friendly relations with the British and grant no concessions to foreign parties in his territory.

These authoritative specifications of the reasons for the continuation or renewal of the grants-in-aid reveal the guiding principle of Anglo-Arab relations. The highly doubtful character of ex-King Hussein and his dynasty, whose glory has been chanted in Metropolitan journals for years, was fully recognized by those in whose hands the destinies of the Arab world was en-

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trusted. Hussein had of course succeeded in playing the game for quite a while. Aided by British moral and financial support he exploited his traditional reputation for clannish purposes. For a time he not only regarded himself as the unchallenged spokesman of the Arab world, as Caliph of all the Faithful, but as the only important factor in the Moslem world in general. He tried to make everyone believe that his was a divine mission to be terminated only by divine decree.

The gloomy forecasts of the Commission with regard to the miserable conditions of Moslem pilgrims was unfortunately fulfilled to the letter and the conditions put to Hussein for the betterment of the pilgrims' welfare remained unheeded. He and his government, but especially he himself, treated Moslem pilgrims as personal chattels, to be disposed of at discretion — an only too natural consequence of his treatment of the Moslem Holy Places as his sole personal property.

The reports of the maltreatment of Moslem pilgrims continually sent to the European chancelleries by their respective political agents in Jedda could not fail to induce the Christian Powers to take a more serious view of the situation, to have conditions thoroughly examined, and to take joint action for their betterment. The despatches of Mr. Bullard, the British Political Agent at Jedda, represented the feelings and protests of all European Powers, with the singular exception of Soviet Russia, whose envoy, being a Moslem from Bukhara, had his headquarters in Mecca and could therefore exert political influence direct. Nor was more respect shown the stipulation with regard to the exercise of greater care and discretion in the conduct of external affairs, especially with the Hejaz's neighbors to the north and south. Relying chiefly on his prestige as guardian of the Holy Moslem places and on his fabulous wealth (King Hussein is said to have amassed in personal taxes a fortune of over one million gold pounds, in addition to innumerable tracts of land on the African side of the Red Sea), Hussein assumed a more and more provocative attitude toward both France and Nejd. Towards France he cherished an historical enmity, dating from the sudden expulsion of his son Feisal from Damascus by General Gouraud's troops. And his attitude toward Ibn Saud could not fail to involve additional interests, especially British interests in Transjordan Palestine and Iraq.

On the other hand, Ibn Saud's régime was continually be-

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coming more stabilized; a system of direct taxation and immediate collection of taxes was introduced by occasional French and English visitors who were asked to act as financial advisers, and the privy purse of the king himself was virtually the State's treasury — not vice versa, as in the case of the Hashimite king. While following strictly the dictates of the Wahabi religion as regards such government reforms as would fall within the scope of religious innovations, the Wahabi chieftain tolerated a number of reforms, especially in the collection of the revenue of the state, which were conducive to the betterment of the public weal. This, together with the loss of popularity of Hussein, helped to enhance Ibn Saud's prestige with disinterested Moslem communities in distant lands.

But as the Wahabis increased in importance they became a menacing factor in the East which it was necessary to check if the whole structure of the mandates was to be left intact. In order to remove the danger of invasion from both Syria and Palestine, it was necessary to restrict the Wahabi influence promptly, to reduce their political significance to normal proportions, and to prevent the spread of the Wahabi insurgence to neighboring territories.

A factor contributing to the elimination of the Hashimite influence from the Arabian peninsula was no doubt the capture of the Holy Cities, Mecca and Medina, by Wahabi forces under Ibn Saud. It resulted moreover in the effort of the Wahabi administration to ameliorate the pilgrims' conditions as well as to settle the long-standing problem of the Caliphate — the preparation of the All-Moslem Congress on the Caliphate. A number of important domestic problems left unsettled by the retiring Hedjaz government absorbed the whole attention of the new conquerors who had little leisure to devote to ambitions of expansion; they were therefore unconcerned as to the political status of any other Moslem or even Arab community beyond the confines of the desert. The rehabilitation of the ruins left by a two years' relentless war between Hedjazians and Nejadians precluded any possibility of provocative attacks on the part of the Wahabis against any other territory.

Thus much history was written in Arabia by Arabians themselves without the connivance of any European Power. Here was an historical enmity between two of the most influential tribes which culminated in the collapse of the one party—incidentally, that party which has admittedly abused the confidence reposed

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in it by millions of believers and by the most influential section of the civilized world. England, while making full allowance for its neutrality as a Moslem Power and by virtue of its treaties with both contending parties, nevertheless could not shut its eyes to the changing situation. It had endeavored to leave things in Arabia to take their normal course and tried to abide by its declared neutrality. But eventually, when Hussein's ambitious schemes for the spread of Hedjaz influence could no longer be looked upon without misgiving, it had no other alternative but to deport him from Arab territory.

The recent treaties between England and Ibn Saud are therefore an inevitable sequence of events in Arabia, as well as the result of the lesson learnt at great expense by diplomatic bartering between England and the Hejaz over a period of nine years. With an eye to the preservation of its vital interests, England sided with the party which broke the powers of misrule and corruption. Ibn Saud's régime will of course be judged by its achievements. It remains to be seen to what extent conditions in the Hedjaz will improve and how far he will go in introducing the much-needed reforms. But in the honesty of his purpose as well as in the perseverance he displayed in combating graft and injustice, no one has any reason to doubt — always remembering that we are dealing with a country, or rather a world, which never in its history has known anything like a really stable and honest administration and that therefore everything has to be appraised by Arab criteria.

The international significance of the alliances is that the status of the Arab peninsula and the Moslem Holy Places has ceased to be only an imperial concern of the European Powers, and has been put to the whole Moslem world for open discussion. Britain, as the country with the greatest number of subjects professing the Moslem faith, is of course the one most directly concerned; hence its anxiety to act as moral or even political trustee of the whole of Arabia, whoever is in authority. The other European Powers (including Italy, which has interests in neighboring African lands) have too many colonial troubles of their own to indulge in any desire for new adventures. And the preparedness of England to exercise a shadow of political control over Arabia — the affairs of which it knows so well — has therefore been received by both the Moslem world and the rest of Europe without grudge, indeed with rejoicing.

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# FRENCH RESPONSIBILITIES IN EUROPE

*By André Géraud*

IN the last few years the traditional feelings of the United States about France have changed in a very striking manner. On the American side it may be said with some reason that the French people have similarly modified their customary attitude toward the American republic; there recently have even been noisy demonstrations of ill-will.

But anyone acquainted with the facts must recognize that there does not exist in France any deep-seated antipathy or hostility. It is impossible to find a responsible French politician who doesn't deplore the estrangement, who doesn't feel that, in the interest of his country, a stop must be put to the process as soon as possible. I will go further and say that, regarding the American and the British branches of the Anglo-Saxon world, most French ministers — and M. Poincaré not last of them — would regard coöperation with the former as easier than coöperation with the latter. Let me say in all frankness that in my judgment this is a mistaken idea, because British civilization and interests naturally lie nearer to us than do those of the United States. But the fact I have spoken of makes it clear that, taken as a whole, France does not turn her back on the new world. Obviously, the same thing cannot be said of America. While making due allowance for the irritation that the debts controversy may have generated in the United States, we are deeply concerned and taken aback by the opinions expressed from time to time by the highest in the land on the subject of our national affairs. We fear lest we may have lost the ability of making ourselves understood on the other side of the Atlantic. Let us try to investigate the causes of this moral separation. Then we shall attempt to define what France means in the political world of today, especially what we should like her to mean to America.

The original cause of the moral separation is not much in doubt. For the first time in history, the American masses have been brought into direct contact with the French masses. It happened during the war. Two very different worlds were thrown together. Internationalism, considered apart from text-books and general socialistic theories, conceived as a disposition of people born

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in various countries to mix together without hurting each other, is mainly an appurtenance of the wealthy classes. Riches equalize the modes of life. Well-to-do individuals live in approximately the same way everywhere, at any rate in the orbit of western civilization. They can interchange the food they eat and the ways they live without being subjected to any serious shock. In the lower strata of the population things are different. The food and still more the house of a French peasant would be repugnant to an American laborer, and, conversely, the diet of the American wouldn't in the least appeal to the French peasant.

For over a century America had consistently been described to the average Frenchman as a sort of Elysian Fields, and I suppose that an analogous idea of France gradually grew up in the mind of the average American. Can we wonder that the clash was really tremendous and that the legend met shipwreck upon the rocks of experience? There is no narrower practical nationalism than that of the man who toils with his hands, deeply rooted as he is in the ancestral soil. Hence many absurd tales which were propagated in America to a wonderful extent. I shall merely allude to what is currently said about the French Government having exacted a "rent" for the trenches held by the American troops on the French battlefields. An ambassador told me that he was surprised to discover that the American statesman who of all American statesmen ought to have known better, actually believed that tale to be correct.

Such is a first explanation. Further account must be taken of the fact that when the armistice and the peace negotiations came, France had to resist the European conceptions of Mr. Wilson, and that she did it in a very peculiar and (to my mind) very dangerous way. Her spokesmen never dared declare to the then President of the United States that they did not think his ideas of a European federation of states, to be achieved on the American model by means of a universal League, were really practical politics. When, on a certain day of October, 1918, Mr. Wilson approached M. Jusserand (having perused M. Jusserand's telegram I can vouch for the authenticity of the incident) with the queer idea that the territories about to be wrung from Turkey had better be placed under the guardianship of certain South American states, since otherwise these states in the ordinary course of things would have little opportunity of an international training, no word was uttered on our behalf to warn

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the President that, after all, he was not free to give rein to all his fancies. Mr. Wilson was flattered and pampered at every turn, and even daring old M. Clemenceau, after some initial outbursts, was prevailed upon to hold his tongue in careful check. It is an important point that a good many mental reservations were to be found among the most competent leaders of French diplomacy — not the old ambassadors, like Paul Cambon, or Barrére, who clearly realized the danger — but among the adepts of the so-called new school, who said: "Let us freely concede to them all the formulas they may want. The carrying out of these formulas will in the end vindicate our own conceptions."

The result of such strategy was — unavoidably — to lay the French nation open to accusations of underhand dealing, insincerity and treachery. I do not defend the method that was followed. But perhaps I may emphasize that, indefensible as the method is, it does bear witness to the overwhelming inclination, apparent in all our political circles of the period, not to attempt anything that might be resented by America. Shyness very often breeds what seems to be mere dissimulation.

In order to illustrate the tendencies of the French ministers of 1918 it may be useful to mention that in the month of September they turned a deaf ear to a British suggestion for the adoption of a joint Franco-British policy in all the forthcoming armistice and peace negotiations, coupled with a proposal that financial resources and raw material be pooled for the reconstruction of the devastated areas. Mr. Paul Cambon, French Ambassador in London, pressed his government to forward a favorable answer. But he was told that, even at that price, the Paris cabinet was not ready to give up their aspirations for a closer intimacy with America. It can almost be said that on that day the Entente Cordiale was doomed for the sake of Franco-American relations.

I always imagined that the lack of candor exhibited by those who spoke or acted on behalf of France in 1918–19 had something to do with the reversal of sentiment perceptible among many Americans in the question of national responsibilities for the origin of the World War — a reversal of sentiment which baffles us on this side more than can be conveyed in mere words. Here again we have to pay the penalty for having failed, under the stress of popular emotions, to state the problem in its correct

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terms when the peace negotiations were in progress. Having to explain how the cataclysm came about, we perhaps too freely indulged in what I should call "anthropomorphism" — the denunciation of the individuals whose actions had led to the war. Of course it cannot be seriously challenged by anyone with a fair knowledge of the diplomatic history of pre-war days that Kaiser Wilhelm and his confidential advisers, and the Vienna clique around Count Berchtold as well as Berchtold himself, decisively influenced the course of events in July, 1914. But the inconvenience of that sort of historical demonstration is that the deeds of the guilty persons are so inextricably intermingled with those of their opponents that they, the guilty, can always make an impression on the mind of the uninitiated (and very few people indeed can be expected to sift and digest the mass of documents now available) through arguing retrospectively that, if only the other party had acted otherwise in such or such circumstances, they would not have taken such or such steps with which they are charged. Thus the clear line of demarcation which ought in all fairness to be maintained between ordinary errors and actual crimes is gradually deleted; a doubt creeps in. The real line of approach for those who wish to expose Germany's responsibility lies elsewhere than in these minute dissections of diplomatic developments, notwithstanding their intrinsic value.

The true cause of the war ought to be detected in the German organism which, according to the famous saying of Treitschke, always acted in Central and Eastern Europe as an organism of colonization. The war issued from the contradiction between the colonizing aptitude of the German people, as exemplified by Austro-Hungarian policy since 1867 — the year of the advent of German-Magyar dualism — and the national aspirations of a medley of Slav races who, though still amorphous, were not any longer to be compared, as in the Middle Ages and through the greater part of the modern era, to passive clay in the hands of the potter. Viewed from this angle, the problem is not so much to lay blame or inflict punishment on exalted individuals or on a military caste, as to make sure that the colonizing ambitions of Germany will not be resumed in the years to come. By such a method of approach short shrift is given to cheap sentimentality and the use of equivocal moral pretenses, which are bound to cause an anti-climax and, in fact, caused it in America; and

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at the same time the way is cleared for the more positive, realistic and sensible policy that is likelier to carry conviction.

Such are some of our failings in so far as they are seen to affect our relations with America. But to cry about the milk that was spilt the other day does not serve any useful purpose. The task that henceforward devolves upon us is to make intelligible to the outside world our position in Europe, to show the part we French must necessarily play there, and to prove the general concordance of our national cause with wide human interests — the corollary being that our failure would be the failure of something bigger than France.

The principal aims we must have in view are the consolidation of the little national states that were created or enlarged at the end of the war when the Hapsburg Monarchy fell to pieces, and the active preservation of Russian independence, this latter implying the resumption of our former friendship with that unhappy country directly it again raises its head above the waterline. In other words, while making every effort to live peacefully with our German neighbors and to settle all our differences with them, we must strive for the evolution of a European continent where the designs and achievements of Pan-Germanism will find no place. That expression, "Pan-Germanism," is not often heard nowadays. As a matter of fact, even in pre-war days practical politicians like Viscount Grey affected to ignore it as well as the force it represented. The word is to be met with seldom, if at all, in the book published last year by the ex-Secretary of State for Foreign Affairs to vindicate his conduct of British foreign policy. And still, today as yesterday, it indicates the weakest spot in the structure of our western civilization.

By the term Pan-Germanism I do not wish to describe the metaphysical racial doctrines of German superiority expounded by Paul de Lagarde, Houston Chamberlain, and the rest. I simply want to indicate the striving of the Berlin Government for domination over the belt of Central and Eastern Europe where German minorities are scattered among Slav masses whose national characteristics have missed for centuries, and perhaps still miss today, the support and protection of an efficient state organization.

In these loosely-knit communities Germany can come forward with the claim that they need her assistance and leadership to achieve economic and material prosperity in the shortest time

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possible. She is in a position to play that part all the more easily in that the German-speaking minorities are already preponderant in trade and industry wherever they dwell and that the natural inclination of socialist forces towards the formation of large economic units works more or less consciously to the same effect. The book on the "New Marxism," published in 1916 by Dr. Renner, the first Chancellor of the Austrian Republic, throws a vivid light on that tendency. It cannot be denied that, even excluding the assumption that some day Germany may resort to a military campaign, her possession of such a tremendous economic weapon makes the survival of the national states set on their legs by the 1919 treaties — Poland, Czechoslovakia, Austria, etc. — a very doubtful proposition. They can only withstand the test of events by the active exertion of the western Powers and, above all, of France. There is certainly a contradiction between the Europe of 1919, constituted on a full national basis, and the way in which economic power is distributed between her component parts. France is fated to look for a solution of that contradiction.

No one can tell what will be the eventual reaction of America towards a situation which she probably still fails to gauge. Judging from the occasional proclamations of her spokesmen about the absurdity of customs frontiers, about the necessity of applying to the old world the American standard of continental unity, it may be apprehended that the defenders of national freedom in Europe, France in the front rank, will find arraigned against them an impressive volume of transatlantic opinion. The decisive hour will be struck when the question of the Austrian *Anschluss* takes a tangible form, in a future not very distant.

The American standard cannot possibly, as such, apply to Europe. If the experiment were forced through, there is every likelihood that it would end in confusion and strife. In America, although the experiment can be said to have triumphed only at the cost of a protracted war in the 'sixties, its success of course cannot be questioned. But on the American continent the existence of a very strong state and of a very strong Anglo-Saxon mould preceded the assertion of separatist racial or sectional tendencies. Peoples rather than nations came to fill the melting-pot, and it is not hard to reshape racial elements when they are not yet hardened into the form of a nationality. Europe offers a quite opposite type of political civilization. There, the unifying

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state — the Roman Empire — considered in both its western and eastern divisions, broke down hopelessly in the early middle ages, and the attempts that were made in the course of subsequent centuries for the reërection of a supreme power — the Holy Roman Empire, the Napoleonic conquest, etc. — ended in disaster. In short, the national factor took precedence of the imperial idea and, little by little, through many crises, compelled it to recede into the background.

What gives a last chance to the imperial idea is the fact that all the European nations are not equally compact and have unequal forces of resistance. France, England, Spain, Holland, Switzerland, Italy, Germany and Hungary have crystallized into solid masses that only the most brutal and lasting conquest could seriously alter. But in parts of Central Europe, and still more in Eastern Europe, the national character is as yet more fluid, and it would be possible for Germany to impress her stamp on many lands and peoples. Ages ago, Western Europe was in the same state of indetermination: the Netherlands, Lorraine, Alsace, Burgundy, the Catalan region, for a long time hovered between a variety of fates. As recently as 1830, Belgium, if left to herself and freed from external pressure, might have joined the French nation. It devolves upon the western Powers and upon all peaceably-minded people in Europe to see to it that the eastern and central states are not interfered with by imperial ambitions while they are still in the process of settling down on their permanent national foundations. As far as Jugoslavia is concerned, the evolution is nearly complete. But others still need a quarter century or more of hard, steady work to reach the status of full independence. It is for that reason that the extension of the German *Reich* to the middle Danubian districts, in a commanding position over most of these composite states which have still to find their balance, would be a signal for the rekindling of the struggle for hegemony.

In America, the unifying power means peace; in Europe, it still means destruction. If ever a federation of Europe takes place, it will be after all the members of the family have reached manhood. *Mutatis mutandis*, the federal problem in Europe does not greatly differ in some respects from the federal problem in the new world, provided that southern America as well as northern America is brought into the picture.

But in the last analysis will France be willing to assume the

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burden that is again falling on her shoulders? And will she be able to assume it? Candidly, it is very perplexing to answer that double query. If we except two or three accidental and transient phases, the history of the French in Europe has been marked on the whole by a struggle against all imperialistic attempts. On some occasions the French Government misunderstood the trend of contemporaneous development and, more than once, failed to carry out its traditionally appointed task. I shall only refer to the partition of Poland in 1772 and to the Sadowa campaign of July, 1866. In that last juncture, Napoleon III made up his mind not to interfere with the development of the Bismarckian policy and preferred to wait until directly challenged by the eastern neighbor. He took up that temporizing attitude while still enjoying great prestige and a freedom of action that was limited neither by any parliamentary control nor by the activities of any league of neutrals. Morally and materially, it will be very difficult for the present French Government, constituted as it is today and given the situation that now obtains in Europe, not to repeat somehow the example of the Bonaparte Emperor. Yet the independence of Austria is of the same general European interest as was the independence of Belgium a hundred years ago. For some years independent Belgium was denounced as an artificial creation of European diplomacy, but today nobody would throw doubt on the genuineness of Belgian nationality. Why should not the Belgian precedent be repeated in the case of Austria?

But unless backed up from the outside France cannot be expected to retain all alone an abiding sense of European partnership, still less to act upon it. There will be no lack of advisers to tell her not to look beyond the Rhine just as Spain does not look beyond the Pyrenees, and to let Central and Eastern Europe take care of themselves. But if she listens to such counsellors, will the eventual retribution of Nemesis fall on her alone?

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# THE NEW STEEL CARTEL

*By Walter S. Tower*

AN industrial syndicate on a scale never before approached was launched by Germany, France, Belgium, and Luxemburg when they signed their recent agreement for control of steel production. In its reach beyond national boundaries this agreement marks a new phase of economic relations. It opens great possibilities. Some regard the syndicate merely as a normal result of distress in the continental industry; they question whether that sort of arrangement, born of hard necessity, will live through a period of prosperity. Others look on it as marking a "completely new political and economic alignment in Europe," and consider it "the greatest guaranty for peace that Europe ever had."[1] Whatever the merits of these diverse opinions, the fact remains that this European development has focused attention on the steel industry to a degree certainly not equalled since the formation of the United States Steel Corporation, twenty-five years ago.

It probably is true that iron and steel making was more profoundly disturbed by the events between 1914 and 1918 than any other of the great industries. Not one of the prominent steel-manufacturing countries escaped those disorganizing influences, and when the war ended, the steel industry of the entire world faced the problem of restoring its trade to normal channels and of making up the ground lost by the diversion of steel to purely destructive purposes.

The general situation was well reflected by the opinion of a British expert who stated that at the beginning of 1920 there was "an accumulated world shortage of steel, estimated at not less than 100,000,000 tons." Continental Europe as a whole, he decided, would take several years, perhaps decades, to build up steel exports as great as the pre-war trade of Germany alone. The idea of a great pent-up demand was current in this country as well, although opinions differed as to the actual tonnage which was in arrears. The common notion about the continental European industry was that only slow recovery could be expected.

[1] See article by C. K. Leith: "The World Iron and Steel Situation in its Bearing on the French Occupation of the Ruhr," *Foreign Affairs*, Vol. 1, No. 4, pp. 136–151, for a discussion of the political significance of the industry in Europe.

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Year after year difficult problems of economic, financial and political readjustment have continued to stand in the way of satisfying the "world hunger for steel." The total world production, it is true, increased by about 14 million tons between 1913 and 1925, but the whole increase was credited to the steel industry of the United States. For the rest of the world, the demand continued below pre-war figures. The significance of this slow recovery was shown recently by a leading British steel master, when he said: "It is difficult to believe that the world's consumption will overtake the present European capacity for at least five, or even ten years." In the meantime, he argued, excess of production, unless controlled, must weigh heavily on the industry, because the extension of steel plant capacity during the war out-ran the growth of world demand.

The latest available figures, covering steel exports from the great producing countries, indicate, however, that world demand for iron and steel has at last reached a volume about equal to that of the years immediately preceding the war. Whether the demand will continue to expand steadily, is still to be demonstrated. But it is interesting to note that almost at the moment when steel consumption, as measured by world exports, had regained its pre-war volume, the continental European producers were framing their provisions for control of output.

To get a fair perspective of the whole situation, it is perhaps simplest to consider separately the following aspects of the industry: first, the location and extent of world ore supplies; second, production and consumption of steel, including competition in export markets; and, third, international agreement among steel producers.

### I. IRON ORE SUPPLIES

It is not easy to reach any fixed conclusion as to the tonnage and distribution of world supplies of iron ore. Complete and accurate data regarding mineral resources are lacking for some large parts of the world. There is the further difficulty of drawing a line between "known" or "actual," and "probable" or "potential" reserves. What is "potential" today may be "actual" tomorrow, merely through some advance in methods of mining, handling or smelting the ore, or in response to changing economic influences. Hence there is always a question as to how far estimates of one date have been subsequently modified.

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From a survey undertaken eighteen years ago, the total of known supplies was figured to be somewhat more than 22 billion tons, of which all but 2 billions were credited to Europe and North America. A few years later these figures were raised fifty percent by a substantial increase in the known supply for North America, and the addition of a large tonnage not previously credited to South America. That second estimate, in turn, has recently been revised upward, bringing the world total to about 42 billion tons.[2] According to these estimates, three of the six continental areas are rich in iron ore, while the others are poor. The two estimates, earliest and latest, are as follows, in billions of tons:

| | *1924* | *1910* | | *1924* | *1910* |
|---|---|---|---|---|---|
| North America | 16.3 | 9.8 | Asia | 1.6 | 0.3 |
| Europe | 15.2 | 12.0 | Oceania | 0.9 | 0.1 |
| South America * | 8.2 | .... | Africa | 0.5 | 0.1 |

*Included with North America in 1910 estimate.

The real significance of these figures lies in the fact that the known supplies in 1924 were calculated to be fully 90 percent larger than in the earlier year. It may not be reasonable to expect that future estimates will show similar great increases, but one cannot ignore the fact that during a period of fifteen years, discovery and exploration added to the tonnage of reserves ready for use many times faster than ore was being withdrawn for consumption.

In addition to the actual supplies as estimated above, vast *potential* reserves of iron ore are credited to various parts of the world. The most recent figures on potential reserves, in billions of tons, are as follows: North America, 111.0; Europe, 25.0; South America, 2.0; Asia, 2.1; Oceania, 1.0; Africa, 1.0. If actual and potential reserves are combined, the present outside figure for iron ore supplies of the world is about 185 billion tons, or more than a thousand times the present annual consumption.

This huge quantity of iron ore constitutes one of the most widely distributed of mineral resources, but the greater part of all that is known lies in a few countries, mainly in the northern hemisphere. They rank in the following order, the supplies being expressed in billions of tons:

[2] Kuhn, O. R.: "Iron Ore Available for United States," *Iron Age*, Nov. 6, 1924, p. 1204, and "Iron Ore Reserves of Eastern Hemisphere," *Iron Age*, Nov. 13, 1924, p. 1285.

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| | *Actual* | *Potential* | | *Actual* | *Potential* |
|---|---|---|---|---|---|
| United States.... | 8.0 | 75.0 | Great Britain.... | 2.2 | 9.5 |
| Brazil..... | 7.5 | .... | Sweden..... | 2.0 | 1.5 |
| France..... | 7.0 | 5.0 | Germany..... | 1.0 | 3.5 |
| Newfoundland... | 4.0 | 4.0 | Russia..... | 1.0 | 2.0 |
| Cuba..... | 3.1 | 12.0 | China and Korea | 1.0 | 1.0 |

Five of the ten are European, but only two are in the syndicate, and these two have less than one-fifth of the world total between them. Other countries not on this list account for only 7 percent of the actual, and 20 percent of the potential reserves.

No two reserves of ore can be compared exactly, ton for ton, in economic value, if for no other reason than the wide variations in the percentage of metallic iron obtainable from the ore. Even inside one country deposits may differ so much that an attempt to calculate the metallic iron content, available for future steel making, is little better than skillful guessing. For actual reserves, however, the percentage of iron in the ores of the several continents may be figured conservatively about as follows: North America, 42 percent; Europe, 35 percent; South America, 55 percent; with the others rather uncertain. An application of these percentages to our figures for the reserves of ore gives about 18 billion tons of metallic iron in the known ore supplies. This figure represents close to three hundred times the present annual output of metallic iron as it comes from the ore. In the last decade, however, an increasing tonnage of steel has come from remelting of scrap, so that, except as lower grade ores were used, the industry has grown without a corresponding drain on reserves.

But the extent of ore reserves is no index of how the various countries rank in ore production. Some of the chief producing countries are among those with comparatively small reserves, while others rich in supply have yet to figure in important production. Though annual reports on iron ore output have been gathered for at least two-score countries, the following ten have consistently been the major sources, as shown by their dominant share of output in 1925, expressed in millions of metric tons:

| | *1925* | *1913* | | *1925* | *1913* |
|---|---|---|---|---|---|
| United States..... | 62.9 | 62.5 | Germany..... | 5.5 (*est.*) | 28.6 |
| France..... | 35.7 | 21.9 | Spain..... | 4.4 | 9.8 |
| Great Britain..... | 10.3 | 16.3 | Russia..... | 2.1 | .... |
| Sweden..... | 8.2 | 7.5 | Algeria..... | 1.8 | .... |
| Luxemburg..... | 6.7 | .... | India..... | 1.4 (*1924*) | 0.4 |

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Seven of the ten are European, with an eighth essentially so; and three of them, which are in the international syndicate, account for close to a third of the world total. In fact the rate of production is heavy enough to exhaust the known reserves of these three in less than two hundred years. The minor countries had a combined output of ore about equal to that of Great Britain alone, although they control close to half the world's reserves of iron.

So far, at least, there has been little need for steel making countries to go far afield for iron ore. Great Britain has more than any other country depended habitually on outside sources; about half its yearly supply has been drawn from Spain, North Africa, Sweden, Norway, and Newfoundland. From these same sources has also come ore to other European steel makers, notably to Germany since 1918, and in small amounts to the United States. Yet only a small part of the huge annual output gets into overseas commerce, probably not more than 12 to 15 percent, and most of that moves on short routes in European waters. Excepting Great Britain, perhaps, none of the great steel making countries would be crippled by having its sea-borne imports of ore cut off more or less indefinitely.

All these facts taken together help to explain why, with a single exception, a desire for the possession of iron ore deposits has not figured as a major issue in international politics. The conspicuous exception is the Lorraine area, where the relation of the iron deposits to coal fields and their location along an international frontier raised the question of control to a place of prime political importance.

## II. PRODUCTION AND CONSUMPTION OF STEEL

An available ore supply is only one factor in the development of an iron and steel industry. Belgium, for example, has a flourishing industry, though she has insignificant reserves of ore. Brazil, on the other hand, stands among the countries richest in actual reserves, but she makes practically no steel. Among other factors, the most important is an available supply of suitable coal; market conditions, labor supplies, financial and political considerations, follow after. Ore and coal often have been regarded as more or less fixed in their influence on the industry of any one country, while markets, labor, financial and political conditions were thought of as variables, always subject to changes which might affect the steel industry. It is doubtful, however,

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whether any of the underlying factors should be called fixed, because progress in the metallurgy of iron and steel tends always to modify the previous relations of ore and fuel.

On the whole, coal and markets have determined the growth of most steel making centers, but in some cases national policies of fostering or protecting the industry have also exercised a powerful influence. It is largely for these reasons that the chief coal mining countries are the great producers of iron and steel. Fuel oil may be a factor in supporting some smelting operations, but not in the steel industry. And the application of the electric furnace to steel making is still a long way from figuring heavily in total annual tonnage. For the near future, therefore, the important steel making countries are likely to remain the same as they have been. This does not mean that the industries which recently have sprung up in various parts of the world are doomed to fail. Nor does it mean that steel making may not be undertaken profitably in places where it does not now exist. But it does mean that no country now outside the group of first rank producers has much chance to force its way into that limited company.

Prior to 1910 world production and consumption of iron and steel had grown so fast that each decade for almost a century had shown about a 50 percent increase over the decade preceding. Had this rate of growth continued, it would have meant a production close to 100,000,000 tons by 1920, and nearly 150,000,000 tons by 1930. Actual performance, however, has fallen far short of those figures. The high mark reached so far was in 1925, with about 89,000,000 tons of raw steel. The following figures, in millions of tons, show how the chief contributors to this total ranked, in output of raw steel, in 1925 and in 1913:

| | *1925* | *1913* | | *1925* | *1913* |
|---|---|---|---|---|---|
| United States | 45.4 | 31.8 | Belgium | 2.4 | 2.5 |
| Germany | 12.5* | 17.6 | Luxemburg | 2.0 | 1.2 |
| France | 9.0* | 4.6 | Others (*est.*) | 10.0 | 9.2 |
| Great Britain | 7.5 | 7.6 | | | |
| | | | *World Total* | 88.8 | 74.5 |

* 1925 figures are for Germany's present area, and for France including Lorraine and Saar.

Five of the six leaders are European, including all four members of the new syndicate, which together account for a little less than 30 percent of the world total. The change in the world total is due to the United States alone. In detail, of course, there has been an important change in the relative position of France and

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Germany, the former having gained substantially at the expense of the latter. But if production within present areas is compared, figures for the two years show little change. One of the chief results of the altered status has been to put the leading European producers — Germany, Great Britain, and France — more nearly on an equal footing.

Among the numerous second-rank producers some changes must also be noted. Fairly important pre-war steel industries in Russia and in Austria-Hungary now appear, in part at least, under other labels, notably those of Poland and Czechoslovakia. Several countries, not previously makers of steel, have developed the industry chiefly since 1913. The notable examples are India, Japan, Australia, and China, because in times past they were reckoned among the best of the neutral or export markets. But with production for the four rising to 1.5 to 2.0 million tons a year, their "neutral" quality is correspondingly reduced.

So far as one can see, this ranking of countries will hold good for a fairly long time to come. If infant industries in outlying countries could make no more headway when steel was scarce and its production highly profitable, they are unlikely to find the way to future expansion an easy one to follow. Bounties and tariffs may succor them in a small way, but it is practically certain that the new countries, including India, China and Japan, have no economic basis for creating a first rank industry.

Although output has not grown beyond the 1913 level, except in the United States, capacity to produce steel is considerably greater. In fact, war-time expansion was so large that excess of steel making facilities has been a source of weakness since 1918. The United States alone has made much progress toward reducing that excess; here the steady growth of domestic consumption has about taken up the slack. The leading European producers, however, continue to suffer from the effects of over-expansion. All of them have producing capacity much beyond domestic needs, and so far, at least, they have been able to employ only part of the surplus in the production of steel for neutral or export markets.

According to commonly accepted estimates, the following figures (in millions of tons) indicate: first, what the principal countries could turn out in raw steel (*i.e.*, ingot capacity) annually; second, their post-war high level of production; and, third, the approximate share of surplus capacity.

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| | *Ingot Capacity* | *Production 1925* | *1925 Surplus Capacity* |
|---|---|---|---|
| United States | 50.0 | 45.4 | 4.6 |
| Germany | 17.0 | 12.5 | 4.5 |
| United Kingdom | 12.0 | 7.5 | 4.5 |
| France (including Saar and Lorraine) | 11.7 | 9.0 | 2.7 |
| Belgium | 3.5 | 2.4 | 1.1 |
| Luxemburg | 2.5 | 2.0 | 0.5 |
| *Total these six* | 96.7 | 78.8 | 17.9 |
| *World Total* | 110–112.0 | 89.0 | 21–23.0 |

For the chief European producers these figures show 25 to 35 percent of capacity as superfluous when measured against 1925 production. The demand for steel outside the United States last year was about 44 million tons. To supply this tonnage five European countries could marshal a capacity of fully 46 million tons, while the second rank countries, also helping to satisfy that demand, added a capacity of at least 15 million tons more. In short, the high mark of world production, at 89 million tons of steel, is to be compared with a world ingot capacity of not less than 110 million tons.

How to bring this excess capacity to bear on the accumulated shortage of steel, how to translate world hunger for steel into actual sales contracts, has proved to be a most difficult problem. The United States solved its share of the problem largely by sharp expansion of internal consumption, following the shake down of 1921. For United States steel makers the domestic market always has been paramount, so that the state of demand elsewhere mattered relatively little. For European producers, however, it is another story. They always needed outside markets. Now, with all the world able to produce much more steel, they are more than ever concerned about the dangers of overproduction and keenly alive to the importance of stimulating exports.

Export markets for iron and steel products had been growing rapidly prior to the war. In the peak year, 1913, the total for the first time rose above 15 million tons. Germany was in the lead, with Great Britain close behind, the United States third, and Belgium and France rather far to the rear. Exports in that year provided Germany with a market for about one-third its steel production; Great Britain and Belgium for about one-half; the United States and France for less than ten percent. The changes which have taken place since then are shown effectively in the

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following figures covering exports, in millions of tons, in 1925 and 1913:

| | 1925 | 1913 | | 1925 | 1913 |
|---|---|---|---|---|---|
| World exports | 15.8 | 15.7 | Belgium | 3.1 | 1.5 |
| France | 4.4 | 0.4 | Germany | 3.0 | 6.4 |
| Great Britain | 3.5 | 4.7 | United States | 1.7 | 2.7 |

The European share of world exports, which was more than 80 percent before the war, was nearer 90 percent in 1925, and the members of the continental syndicate held two-thirds of the total.

A large part of the flourishing pre-war trade, close to two-fifths, was intra-European, with some heavy tonnages moving from one to another of the steel making countries themselves. Another important item was colonial trade, — especially in the British figures. If deductions from the total were made for both intra-European and colonial markets, only 5 or 6 million tons of exports would be left to represent all overseas demand from the so-called neutral markets. In other words, these neutral markets, where no producer enjoyed special advantages, offered an outlet for barely more than ten percent of world production.

Since 1918 there has been little semblance of what might be called normal steel export trade. The wild speculative buying from all quarters of the world in 1920 was followed by extreme stagnation of exports in 1921. Since then labor troubles, especially in Great Britain and Belgium, the collapse of the German currency, the French occupation of the Ruhr, political disorders in Russia and China, the depreciation of French and Belgian currencies, and numerous other influences have sufficed to keep the steel export trade topsy turvy. With some of these influences still operating, it is difficult to say whether the return to a pre-war volume of world exports in 1925 was permanent, or only a passing phase of the vigorous unloading at low prices from countries with depreciating currencies. Some of it is hardly to be looked on as lasting, as for example the heavy imports to the United States; and to that extent, at least, the recovery to pre-war volume of exports is not on a permanent basis.

There is little reason to expect that European steel consumption in the near future will increase much, if any, beyond the pre-war scale. Some of the former demands on production have vanished; others have declined sharply; none shows much inclination toward vigorous growth. Outside of European countries

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and their colonies, the pre-war demand of 5 or 6 million tons has grown no more — perhaps less — than the capacity to make steel where none was made before. But granting that export markets have been fully revived, demand from that direction still must grow substantially if it is to keep all the added European capacity profitably occupied.

A considerable amount of idle capacity among European producers seems unavoidable — and, as a result, there is uncommonly keen competition for business in the neutral markets. Such conditions naturally pave the way for some sort of protective agreement among neighboring producers.

### II. AN INTERNATIONAL AGREEMENT AMONG STEEL PRODUCERS[3]

The news of an agreement among European steel producers caused much speculation as to the underlying motives. Some guessed that it was dictated merely by the desire for self protection; others saw in it preparations for a war for supremacy in world steel markets. Both these motives may be at work.

Certain it is that a syndicate of German, French, Belgian and Luxemburg steel makers is powerful enough to be assured of self protection, at least against outsiders. The four countries contain the biggest and best combination of closely associated ore and coal supplies in Europe, with reserves adequate for many generations; their steel capacity is nearly a third of the world total, and most of it is compactly placed, probably close to 80 percent of it being within a radius of 150 miles of Coblenz; their output of steel covers more than half of all that is made outside the United States; and their exports amount to nearly twice those of all others combined.

A syndicate on this scale, in a key industry, is bound to interest the world in general. As a force in the steel industry in particular, the syndicate is of special and continuing concern to producer and consumer alike. Only experience can tell what such a force is able to accomplish. In advance one can merely consider what the agreement itself is:

1. The agreement is to run for five years, from April 1, 1926, but any one of the members — Germany, France, Belgium, and Luxemburg — may withdraw up to the first of May, 1929.

[3] Acknowledgment is made to the Bureau of Foreign and Domestic Commerce for generous assistance in securing detailed information about the European steel syndicate.

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2. A committee of four, one from each of the countries, will serve as an administrative board.

3. Each country will be assigned a quarterly production quota, the quotas being based on a specified percentage of an assumed annual output, and determined by a three-fourths vote of the committee.

4. The percentages assigned to the respective members may be modified, but only by a unanimous vote.

5. Members of the syndicate agree to pay (monthly) into a common fund the equivalent of $1.00 per ton of raw steel produced.

6. Any country which exceeds its quota must pay as penalty, to the central fund, an additional $4.00 per ton for each extra ton.

7. Any country which falls below its quota will be paid, for each ton short, a rebate equivalent to $2.00 a ton, but this rebate is restricted to 10 percent of the quota. If a country's production remains 10 percent, or more than 10 percent, below its quota for successive quarters, the amount on which the rebate will be paid decreases by 2 percent each quarter, that is it would apply to only 8 percent in the second quarter, 6 percent in the third quarter, and so on.

8. Penalties and rebates are payable quarterly, and after accounts are balanced any sum remaining in the common fund is to be shared among the members of the syndicate, in proportion to their production.

9. Other European steel producing countries may be brought into the agreement, by a majority decision, if a new member enters with its quota based on rate of production attained during the first quarter of 1926.

Other provisions refer to possible grounds for terminating the syndicate, accounting procedure, compulsory arbitration, imports which Germany will take from France and Luxemburg, and various lesser details.

The agreement, as published, fails to cover three important points: actual quotas; division of markets; and price policy.

It is stated, however, that the quarterly quota effective October 1, 1926, is figured on an assumed annual total of about 27.6 million metric tons,[4] and that the division of this amount was fixed approximately on the basis of each country's rate of operations during the first three months of 1926. German trade papers quote the following percentages which are to be used in figuring quarterly allotments: Germany 43.5; France 31.19; Belgium 11.56; Luxemburg 8.55; Saar 5.20. But these percentages must vary somewhat according to the figure assumed for the yearly total, because the price of Belgian assent was an initial quota of 295,000 tons per month. This concession was made with the proviso that the Belgian allotment would not change, even

[4] Since increased to 29.3 million tons.

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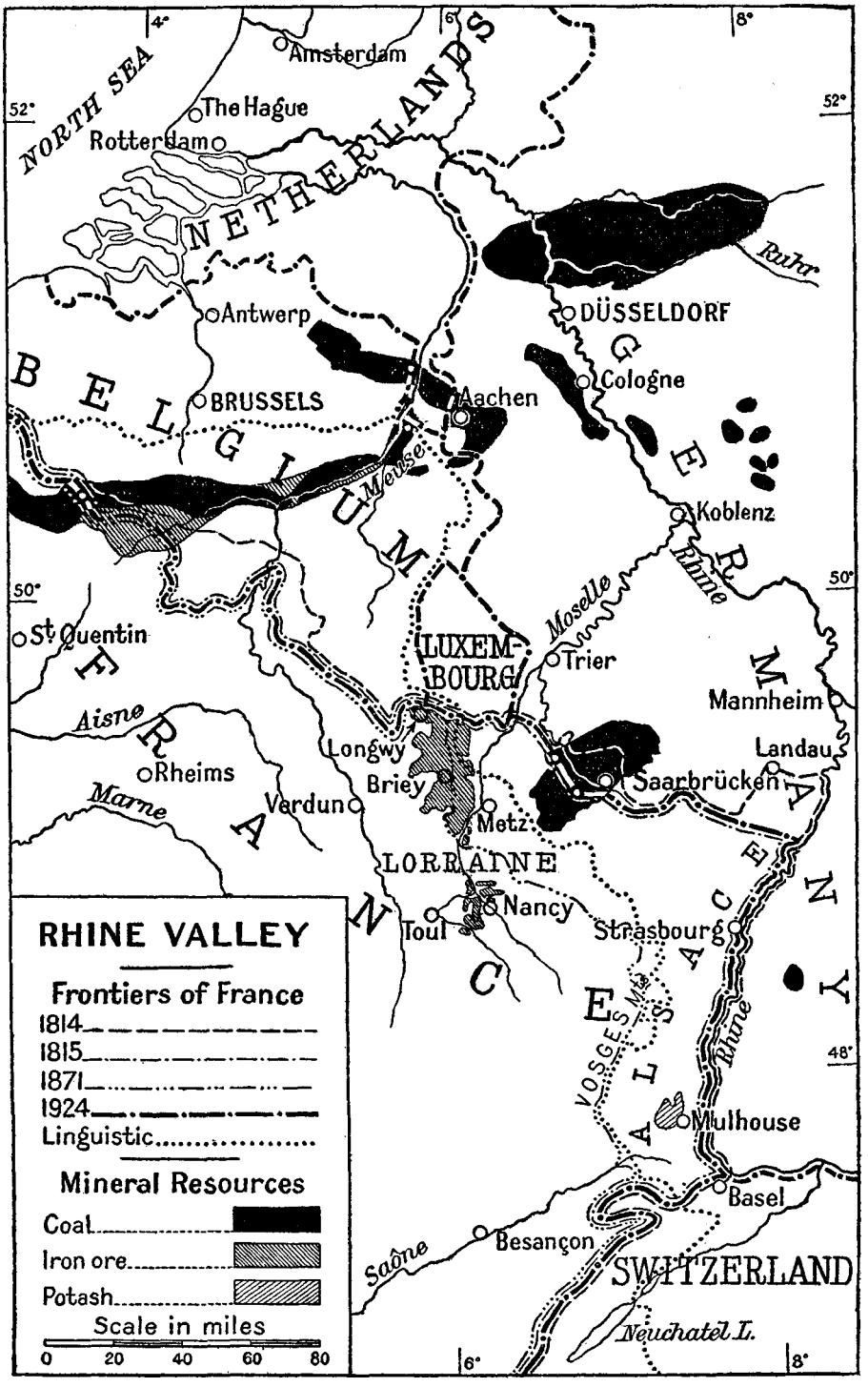


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though the annual total were raised to its assumed maximum of about 30.6 million tons. From these facts it is evident that the general procedure is to set up a theoretical normal output for the syndicate as a whole, and then to subdivide this total more or less according to internal demand plus exports, as reflected by recent operations. On the whole, the use of 1926 operations as the basis for figuring relative shares is less favorable to Germany than to the others, because of the rather slack state of the German industry during the early part of this year.

The real importance of these provisions can be measured only by comparing the initial and the maximum yearly quotas, first with raw steel capacity, and second with actual production in 1925. The following figures, in millions of tons, make such a comparison possible:

| | *Ingot Capacity* | *Production 1925* | *Initial Yearly Quota** | *Maximum Yearly Quota** | *Percent of Capacity in Max. Quota* |
|---|---|---|---|---|---|
| *Total* | *34.7* | *25.9* | *27.2* | *30.1* | *88%* |
| Germany | 17.0 | 12.5 | 11.7 | 13.0 | 76% |
| France | 9.7 | 7.4 | 8.4 | 9.3 | 96% |
| Belgium | 3.5 | 2.4 | 3.5 | 3.5 | 100% |
| Luxemburg | 2.5 | 2.0 | 2.2 | 2.5 | 100% |
| Saar | 2.0 | 1.6 | 1.4 | 1.8 | 90% |

* Metric tons have been converted to gross tons for convenient comparison.

It therefore becomes clear that the program at the outset does not call for any real curtailing of output below 1925 levels except in the case of Germany. Furthermore, the assumed maximum output would call into use nearly the full producing capacity of all except Germany. It is logical to suppose that the maximum might be raised later on by vote of the syndicate committee, although Germany would be the only one to benefit materially from such action.

The agreement contains nothing definite as to actual division of markets, either domestic or export. It is practically certain, however, that each country agrees to respect the home markets of the others. This condition is implied in the reference to a specified volume of imports which Germany will take from France and Luxemburg, and by reports that each member is pledged not to sell to any other party to the agreement at a price lower than the seller's domestic market level. It also seems likely that some plan has been made or will be made, first, for reserving as

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much as possible of continental markets to members of the syndicate, and second, for dividing overseas markets or for joint selling in those markets. It is hardly to be expected that the parties to the agreement would continue to be competitors in the full sense, but rather that they would tend to operate as a unit in competition against other countries. There would be more to gain than lose by such a policy. And if that policy led to the elimination of the unfit, among national producers, there would be a desirable gain economically.

Finally, there does not appear to be any direct agreement as to policy on prices either at home or abroad, except as to undercutting as noted above. Real restriction of output inevitably would affect price levels, and the upward tendency of continental quotations during September and October is cited as a prompt reaction to the formation of the syndicate. But so far there is no hint of actually curtailing operations, and that particular advance of prices may just as well have come from other causes, such as the cumulative effects of British labor troubles. Unquestionably one of the objectives, at least of German steel makers, was relief from the low price competition of French and Belgian products. Yet it probably would be fatal to attempt at the outset to establish any definite price schedule. There are enough snags on which the scheme may founder without adding to them deliberately. Outside competing countries fighting for neutral markets would find an established price list a very handy weapon to turn against syndicate members.

Some comments on the agreement have referred to the levy of $1.00 per ton as a device for regulating prices, on the theory that the producers must consider the possibility of losing that payment through the operation of the proviso for rebates on account of under-production. It cannot work that way to any considerable degree, however, for maximum rebates in any one year could not amount to as much as the levy collected on only twenty percent of the quota; and so far as one can see the only other charges against the central fund would be the costs of administration, which would hardly be heavy. The fixed levy per ton is more appropriately to be regarded as insurance against ruinous price cutting. On the face of things, the chief effect on prices is likely to come either through sympathetic influences, or, if control is contemplated, through a "gentleman's agreement." If it is assumed that the syndicate will work for more or less

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uniformity of steel prices, among its members, perhaps at a somewhat higher level than recent quotations, that policy would be more to the advantage than disadvantage of British and American steel makers. Both these rival units have felt acutely the effects of low-priced offerings from continental mills.

The original scope of the syndicate is perfectly well defined, but the provision for taking in other members has already led to rumors that Austria, Poland, Czechoslovakia and Hungary have expressed both a willingness and a desire to join. In fact, the hope is expressed, especially in German circles, that the syndicate will presently embrace the entire European industry, not excepting the British. The original members have certain economic interests in common, the chief being the long established relation between Lorraine ore and the coal supplies in the other countries. That in itself is a sufficient foundation for the syndicate, and on that ground steel men several years ago predicted some arrangement of this sort. But if the scope is widened the community of interests must be weakened; the chances for disagreement are multiplied many fold; and the problem of administration must become much more unwieldy. The lesser countries, for selfish interests, probably need to be aligned with the syndicate, but it is hard to see why the syndicate needs them.

The success of the syndicate, as a working arrangement for regulating the production of raw steel, must largely rest on the ability of each national industry to control its own members. With many individual producers involved, the formation of strong national syndicates is almost a prerequisite. In Germany this has been done quite thoroughly by the formation of various associations or cartels, like the raw steel cartel, and by a combination covering nearly half the industry, the so-called Steel Works Trust (*Die Vereinigte Stahlwerke A. G.*). French and Belgian interests are less well organized into powerful national units. Among the countries which might be added to the list, Poland and Czechoslovakia are supposed to have pretty well organized steel syndicates or cartels, but the Czechoslovak group has recently severed its agreement with Austrian interests because of differences over markets. The British industry, on the other hand, is far from being organized on any such basis.

Just how the syndicate will operate, and what it may accomplish, are matters that still lie in the realm of speculation. But taken at face value, it is not the kind of agreement which would

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be set up if its immediate object were a war for markets on a price-slashing basis. Its obvious purpose is to assure for members of the syndicate their own home markets, and to remove the danger of overproduction flooding Europe, with steel at prices which would leave little or no profit to anyone. This step naturally would precede any effort to reach out for control of markets beyond domestic limits. When the syndicate has shown ability to coöperate successfully at home, it can find plenty of economic inducements to turn its interest toward external markets and the desirability of joint selling for export. All the members must export a large part of their products, if steel making is to be kept up to capacity. But for Belgium and France, at least, it is pretty clear that the way to secure larger export markets is not likely to be found in a hard-fought trade war, where price-cutting is the chief weapon. Their domestic markets are not big and profitable enough to provide sinews for that sort of campaign. It is doubtful, also, whether Germany could afford to follow that course very long. Hence a definite export policy, even to the pooling or division of markets, appears to be a wholly logical development. In that aspect the syndicate opens the possibility of far-reaching effects on the steel trade of the world.

The suggestion that the syndicate may try to drive United States and British steel from neutral markets, and then invade both United States and Great Britain with added volume of imports, is highly fanciful. Certainly no such end is to be accomplished by restricting output and leveling European price quotations upward. At the same time, there is no doubt that the syndicate has embarked on an ambitious program; that it provides a medium which could be made to cover its members' interest in any phase of the steel industry; and that as long as its members can continue to enjoy low labor costs, abundance of cheap coal and iron ore, and a reasonable amount of governmental approval, it can make a considerable stir in world steel markets.

Whether the British industry will join the syndicate is very much of an open question. If that does happen, it almost certainly will be more from necessity than from natural inclination. Some reports, fairly well substantiated, state that British steel men approve the idea in principle, although they are not in a position to join now. Other rumors are current that the British were not in the syndicate because of wide disagreements which arose in the preliminary discussions of quota, the British insist-

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ing on 8 million tons a year instead of the 6 million tons which the others were willing to concede. Whether in or out, the formation of the syndicate probably means that British steel makers lose much of their continental markets, which have normally represented about one-fourth of their export trade.

There are numerous good reasons which could keep Great Britain out of the syndicate. The British industry is on a clearly different footing from the continental. Its fuel supply is wholly domestic. Its ore, so far as imported, comes mainly from Spain, North Africa, and Sweden. The industry is far from being well organized; much of it is handicapped by old equipment and uneconomical operations. Its chief overseas markets are largely British Colonies and Dominions, or countries where a large investment of British capital gives British goods a preferred status. Finally, the British industrialist does not incline to cartels and syndicates, but rather to the idea of vertical trusts and complete independence of action. Altogether, these circumstances would make it extremely difficult for the British steel makers to enter the agreement on any basis that would be satisfactory to all parties concerned. It is not inconceivable, however, that the question of self protection might become serious enough to outweigh all other considerations.

For steel makers in the United States the matter of syndicate control over European markets is wholly negligible. Less than half of one percent of the United States production last year found its way to Europe; and all the facts of world steel production and consumption make it plain that Europe cannot be a normal outlet for any quantity of the American product.

Furthermore, it is quite unlikely that members of the continental syndicate can secure any large and lasting share in the domestic steel market of the United States. True, European steel shipments ordinarily can be made to seaboard cities in this country at a freight cost fully as low as that on similar rail shipments from the inland steel centers like Pittsburgh. This condition is especially notable at Gulf and Pacific coast points. It was so before the war. It has recently been rather more conspicuously so, because of the abnormally low prices for European exports. It is always likely to persist, to some extent, even though European currencies become stabilized and world costs and prices once more attain a normal relationship as between different countries. Just so long as bulky raw materials, like cotton,

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move outward, good ballast material, like steel products, can come back at bargain rates. But the level of freight rates for rail shipments to interior points must limit the competition of steel imports to the seaboard sections of the United States.

It is generally doubted whether steel interests in the United States have been approached in the matter of joining the syndicate, but it goes without saying that they probably are fully conversant with developments to date. As matters stand, there is nothing much for the American industry to gain by joining, and nothing to lose by staying out. An informal, friendly understanding would accomplish for steel makers in this country everything that full membership in the syndicate has to offer.

On the whole, then, the notion that this syndicate is the first stage in a world-wide steel agreement is too fantastic to merit second thought. The chances for a pan-European agreement are not very good, unless dire need drives the British interests to seek shelter under its cover. A pan-continental syndicate is more than probable, if minor differences among the lesser units are not over-emphasized. But expansion of the syndicate can enhance its importance in only a slight degree, unless that expansion includes Great Britain. With British and United States producers outside the agreement, steel consumers in neutral markets have little ground to fear price-gouging by the syndicate.

It is the German ambition to "rationalize business" on an international scale by eliminating unprofitable competition and reducing costs of production. This syndicate may be an unselfish move in that direction, for the ultimate good of the steel industry in Europe, perhaps elsewhere. On the contrary, it may be a wholly selfish scheme to revive as far as possible the prewar economic hegemony, partly at the expense of other countries. The agreement, as it stands, may lead either way. Whether it does or does not inaugurate a "completely new economic and political alignment in Europe," the syndicate, as a purely business arrangement, probably will result in more benefit than injury to the steel industry of the world.

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# THREE DAYS IN BELGRADE

## JULY, 1914

*By Hamilton Fish Armstrong*

IT is the thesis of Count Montgelas that the Great War ended with nobody knowing why he had fought. On that point views will continue to differ so long as history is recorded. It will remain a question of absorbing interest, not only to our generation which fought the war, but also to our children's children. Every thread, therefore, that can be collected and woven into the story is worth preserving, and not alone threads that lead us to understand why the war developed but those also that tell us something of the precise way in which it developed. In the second of these categories falls the following brief account of what took place in Belgrade when Count Berchtold, Foreign Minister of Austria-Hungary, at last showed to the world the hand which he had been carefully arranging ever since the murder of the Archduke Francis Ferdinand at Sarajevo on June 28 by a young Serb subject of the Hapsburg Emperor.

The month of July, 1914, was an anxious one for Serbia. The murder at Sarajevo had at once awakened fears in Belgrade that Austria-Hungary would seize the event as a pretext for beginning the war which persons high in Austrian and Magyar official and military circles made no secret of regarding as the only possible means of preventing the disintegration of the Dual Empire. That at first Belgrade expected the worst, is shown by the interesting anecdote told by a Serbian who happened to have an appointment to see Premier Nikola Pashitch on the afternoon of the day when news reached Belgrade from Sarajevo of what had been done there. This Serbian, at that time a close friend of the Premier, learnt of the murder on his way to the Pashitch house. M. Pashitch, he found, had been dressing when the news was brought him. Immediately he took off his clothes and went to bed, and was lying there alone, thinking, when his friend arrived. His first words were: "It is very bad. It is very bad. It will mean war." At that time the report was that the assassin was a Serbian from Belgrade.

This first impression did not persist. It is true that the recriminations of the Viennese and Budapest press, and the retorts of the newspapers of Belgrade, did not allow popular tension to

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lessen. But as time passed the cloak of calm thrown about the matter by Count Berchtold lulled not alone the Serbian Government but the Entente Powers as well into a false sense of security. By July 19 M. Pashitch, who was Foreign Minister as well as Premier, felt the skies enough clearer for him to be justified in leaving Belgrade to begin an electioneering tour in a remote mountainous district near Prishtina.[1] He must have been influenced in this decision by his habitual absorption in domestic politics at the expense of foreign affairs, because as recent as July 15 he had received anything but reassuring telegrams from Jovan Jovanovitch, the Minister in Vienna, while the Minister in London, M. Boshkovitch, spoke in a dispatch dated July 17 of the possibility that Austria-Hungary had "a plan afoot to bring pressure upon Serbia which might transform itself into an attack by force of arms."[2] It is not easy, then, to absolve Premier Pashitch of blame for having failed to see through the screen behind which Count Berchtold, discreetly aided from Berlin by Herr von Jagow, was building his plan for the destruction once and for all of the Jugoslav movement, for the reduction of Serbia to a position of vassalage, and for the smashing of Russian prestige in the Near East.

A little after nine o'clock on the morning of Thursday, July 23, Dr. Slavko Grouitch reached the door of the Serbian Foreign Office, of which at that time he was Secretary General.[3] When M. Pashitch left the capital four days earlier it had been agreed that in his absence his duties should be exercised by Finance Minister Pachu, but as the appointment was regarded largely as a matter of form, and as the actual order had only been issued the preceding day, M. Pachu had not yet been to the Foreign Office. On this morning the staff were preparing to begin their usual duties, not suspecting that the day was to be marked in letters of red in their national history, and that the first brief scene in the prelude to the greatest of all wars was about to take place in Dr. Grouitch's office.

As he came down the street Dr. Grouitch had been surprised to notice a carriage standing at the door of the Foreign Office.

[1] Incidentally, the Serbian Chief-of-Staff, Voivod Putnik, was absent at the same time taking a cure at an Austrian watering-place.

[2] *Serbian Blue Book*, Nos. 25 and 27.

[3] Dr. Grouitch had been Chargé d'Affaires at the Serbian Legation in London. After the war he became Minister of the Kingdom of Serbs, Croats and Slovenes in Washington. The writer has many of the facts of the present narrative from him personally.

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This was unusual, as clerks were not accustomed to arrive at work in carriages, and diplomats came by appointment or between 11 and 12, the hour set aside for their visits. Going upstairs, he found the Secretary of the Austro-Hungarian Legation waiting. The Secretary said that his Minister, Baron Giesl von Gieslingen, wished to see Premier Pashitch that afternoon at 4 o'clock. This was in itself strange, as diplomats habitually asked when they might be received, instead of themselves setting an hour. Dr. Grouitch explained that (as the press had made well known in Belgrade) M. Pashitch was in southern Serbia and would not be back for several days. The Secretary enquired what responsible official the Minister might see. Dr. Grouitch said that he was at Baron Giesl's disposal, or if the latter preferred he was sure the Foreign Minister *ad interim*, M. Pachu, would receive him. The Secretary said that in that case the Minister would like to see M. Pachu at 4 o'clock. To Dr. Grouitch's enquiry as to the reason for the requested interview, the Secretary merely replied, "for an important — *wichtige* — communication." Dr. Grouitch said that he would telephone later if the appointment could be made, and the Secretary left.

It has been stated that on July 21 or 22 Baron Giesl informed the Serbian Foreign Office that they might expect an important communication on the afternoon of the 23rd, and indeed the *Diplomatische Aktenstucke*[4] gives the text of Count Berchtold's dispatch of July 21 instructing him to do so. Dr. Seton-Watson in his interesting new volume, "Sarajevo," alludes to these instructions, but without mentioning the fact brought out by Dr. Grouitch, — namely, that for some reason Baron Giesl did not carry them out. Dr. Grouitch states categorically that no notification of the imminence of an important Austro-Hungarian declaration was received until the appearance of the Secretary the morning of July 23. Moreover, the Secretary in making his request for an appointment for Baron Giesl that afternoon expressed surprise at hearing that Premier Pashitch was absent, though as a matter of fact both Vienna and Berlin knew it well.[5]

As soon as the Secretary had left, Dr. Grouitch hastened over

[4] The collection of Austrian diplomatic documents published in Vienna in 1919. For Count Berchtold's July 21 dispatch see Vol. I, No. 36.

[5] The same dispatch of Count Berchtold to Baron Giesl tells him that even if the prescribed warning should fail to bring Premier Pashitch back to Belgrade the ultimatum must nevertheless be handed over to the next senior minister. Berlin had been sent a summary of these instructions (see Ambassador Tschirschky's telegram No. 94, filed Vienna 1.45 p. m. July 22, printed as No. 110 of the "Kautsky Documents").

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to see M. Pachu at the Ministry of Finance. The peremptory manner in which the request for an appointment had been made showed that the communication to be made by Baron Giesl was probably not only important but unpleasant. Furthermore, as Dr. Grouitch pointed out to M. Pachu to overcome the latter's initial lack of concern, the anxiety to hand in the note at a certain hour evidenced a desire to arrange a "*point de depart*," and a diplomatic note containing a time element at least partakes of the nature of an ultimatum. M. Pachu was only partly convinced, remarking that even so the time named by Austria-Hungary for replying would probably be several weeks; but he agreed to Dr. Grouitch's request that Premier Pashitch be at once informed. It was then discovered that there was no telephone in the village where M. Pashitch had spent the night, so it was arranged after much telephoning that a gendarme with a message should be dispatched to him on horseback, and at the same time orders were given for the preparation of a special train at the nearest railway station in case he wished to return at once to the capital.

It happened that it was the Sultan's birthday, and therefore that the chiefs of mission and Serbian officials had to call at the Turkish Legation to present their felicitations. As Dr. Grouitch's carriage arrived at the door of the Legation in Posorishna Ulica (now the American Legation), the motor of Baron Giesl drew up behind. The Austro-Hungarian Minister exchanged greetings and then said, "Have you told M. Pashitch that I wish to see him at 4 o'clock this afternoon?" Dr. Grouitch replied that, as he had already informed the Minister's Secretary of Legation, the Prime Minister was out of town, but that M. Pachu, acting Foreign Minister, would be glad to receive him at the hour named.

As the day wore on M. Pachu came to share Dr. Grouitch's alarm. There were only three other Cabinet Ministers in Belgrade at the moment, but they included two of the government's most experienced and influential servants — Stojan Protitch, and Ljuba Jovanovitch, Minister of Education. The remainder of the Ministers were busy electioneering in their constituencies. After consulting Messrs. Protitch and Jovanovitch, Dr. Grouitch sent Premier Pashitch a second message, urgently advising him to return to the capital immediately, and in the course of the afternoon word came that he had started by special train.

A little before the hour appointed for the reception of Baron

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Giesl, Messrs. Pachu, Jovanovitch and Protitch (though the last named was ill) assembled at the Foreign Office. At five minutes before 4 the same Secretary appeared and said that the Minister asked to be excused, but that he would come instead at 6 o'clock. Dr. Grouitch expressed some surprise to the Secretary, calling his attention to the fact that M. Pachu was waiting as arranged. The Secretary, very tense and pale, merely said that Baron Giesl was not ready, and left. M. Pachu was indignant, and thought of leaving Dr. Grouitch to see the Austro-Hungarian diplomat, but on reflection realized that he must swallow his pride and wait. Wait they did, discussing what could be the reason for the delay. They agreed among themselves that some work of translating or copying must have held the Minister up, but even so failed to understand why he had not been more polite in giving notice and asking a change in the appointed hour.

The little group waiting anxiously in the Foreign Office did not know that the German Government (which had been informed of the hour set for the delivery of the ultimatum) had made inquiry of its Ambassador in St. Petersburg, Count Pourtalès, as to the exact time when President Poincaré would leave the Russian capital on his sea-voyage to Stockholm, Copenhagen and Christiania, and that the delay in Baron Giesl's arrival was due to the alertness of the German Foreign Minister, von Jagow. On receiving word from Count Pourtalès that the French President would not sail from Kronstadt at 10 o'clock (as originally scheduled), but at 11, von Jagow figured out that this would be only 9.30 o'clock Central European time, and that there was a bare possibility that word of the ultimatum might meanwhile reach St. Petersburg from Belgrade, thus robbing the Central Powers of the advantage which they hoped would accrue from the circumstance that the chief of the French Republic was cut off from communication during the moment of gravest crisis. The German Ambassador passed this hint on to Count Berchtold, and was able to telegraph Berlin at 1.45 p. m. on the 23rd the "warmest thanks" of the Austro-Hungarian Government and the information that Baron Giesl had been instructed to "postpone delivery for one hour."[6]

[6] See Poincaré's time-table furnished to von Jagow by the Admiralty Staff of the German Navy, July 21, 1914 (Kautsky document No. 96), and Tschirschky's No. 96 to the German Foreign Office (Kautsky document No. 127). The Vienna correspondence usually mentions between 4 and 5 o'clock as the original time for the presentation of the note in Belgrade; but 4 o'clock was the hour actually set by Baron Giesl's Secretary when he first visited the Foreign Office.

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The proceedings when Baron Giesl appeared at 6 o'clock were very short. He came alone, and was shown into the Foreign Minister's ante-room. Messrs. Pachu and Grouitch went out to him, while Stoyan Protitch and Ljuba Jovanovitch waited inside.The Austro-Hungarian Minister said: "I have instructions from my Government to deliver you this note, and to add that unless a satisfactory reply is given *on all points* by 6 o'clock on Saturday, the day after tomorrow, I shall leave Belgrade with all the personnel of my Legation." So saying, he laid the note on the table. Without picking it up, M. Pachu said that it would be difficult to reply to an important communication so rapidly, the more so because, as the Minister knew, Premier Pashitch was absent. Baron Giesl merely smiled and said sarcastically that in Serbia distances were negligible, adding that in any case there were always the telegraph and telephone. M. Pachu said that he could make no further comment, and the Minister left.

At once the fateful document was taken back into the other room, and the Ministers and Dr. Grouitch began to turn over the pages, reading bits aloud and translating here and there as they went along. The emotion grew as the tenor and object of the note became clear. Finally the end was reached. Nobody cared to be the first to speak. At last Ljuba Jovanovitch got up, walked the length of the room once or twice, and said: "Ne ostaje nista drugo nego da se gine"—"Well, there is nothing to do but die fighting."[7]

The first thought was to notify the foreign legations,[8] to translate, code and send off the ultimatum to the Serbian legations abroad, and to reach Premier Pashitch and tell him of the terrifying demands of Austria-Hungary — of which Sir Edward Grey said to Count Mensdorff when he read the text the next morning that he "had never before seen one state address to another independent state a document of so formidable a character." Vain efforts were made to communicate with Pashitch at Stalatz, at Chuprija, at Jagodina. For some hours he could not be reached. When he finally got back to Belgrade early the next morning he still had not seen the complete text of the ultimatum.

The two days of grace were feverish with consultations and frantic preparations for every contingency. It was realized that

[7] "Se gine," literally "perish," but used in the old Serbian ballads in the sense of meeting a violent death after combat.

[8] The Powers were meagrely represented at Belgrade throughout the crisis. The French Minister had recently had a break-down, and had not even been replaced by a Chargé d'Affaires. Both Russia and Great Britain merely had Chargés d'Affaires.

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even though the demands of Vienna were met on every possible point compatible with the maintenance of Serbian independence and sovereignty, war was imminent. That doubtless meant the immediate bombardment of Belgrade, which lay at the mercy of Austrian artillery across the Danube. Orders were given, therefore, for a special train to be prepared on Saturday afternoon at Topchider, just outside the city, to transport the foreign diplomats and members of the government and their families to Nish. A second train, for the Prince Regent and his suite, was to wait in the Belgrade station. The city was not to be defended. All troops were withdrawn, except a couple of hundred men of the "last defense" who were left to maintain order, and a few engineers who were retained to blow up the Danube bridge after Baron Giesl's train had crossed to Semlin.

The reply to the ultimatum was written principally by Stojan Protitch. Seven of the ten Austro-Hungarian demands were agreed to unconditionally. Of the others, two were accepted with reservations, and one, the double demand that Serbia at once open a judicial inquiry and that Austrian officials be permitted to take part therein, was accepted as regards the first half, but declined as regards the second half as being contrary to the Constitution and the laws of criminal procedure. In conclusion, the reply emphasized Serbia's desire for a "pacific understanding" and declared a willingness to submit the questions between the two countries either to the Hague Court or to the Powers. The whole tone of the note was conciliatory in the highest degree. Vienna hesitated two days before daring to forward the text to Berlin. When the German Kaiser finally did see a copy (obtained by von Jagow from the Serbian chargé in Berlin) he wrote at the bottom: "A great moral victory for Vienna; but with it every reason for war drops away, and Giesl might have remained quietly in Belgrade."[9]

Though it is correct to say that Protitch wrote the reply, his text was threshed over by the whole Serbian Cabinet. Every word was discussed and re-discussed, and changes *ad infinitum* were made up to the last moment. Meanwhile the diplomats besieged the Foreign Office in the effort to discover Serbia's intentions. They could only be referred to Acting Foreign Minister Pachu's first telegram to the Serbian Legations

[9] Kautsky document No. 271. For von Jagow's efforts to secure the text of the Serbian reply from Vienna see Kautsky documents Nos. 246 and 280.

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abroad, dispatched after Baron Giesl's visit on the evening of July 23, which had characterized the Austrian demands as "such that no Serbian Government could accept them entirely."[10]

Even the final Serbian text as handed over to Dr. Grouitch for translation and copying was so full of elisions and erasures and corrections and had so many little riders attached to it that only one who had been working on it could decipher the sense. As the hour for its delivery to Baron Giesl approached the government offices were evacuated.[11] Only some of the most important archives could be packed hurriedly into cases at the Foreign Office and carried in carriages to the train waiting at Topchider. Dr. Grouitch was left alone at the Ministry with two assistants to finish the preparation of the formal document. Even at this eleventh hour, while he was dictating the definitive translation (there being no time to prepare a draft translation, he translated direct to the typist), he was called to the Cabinet meeting, which was in continuous session, to receive instructions for a change in one of the earlier paragraphs. He pointed out that the final typing of the note was in progress, and that to begin over again would be to prolong the work past the hour set for its delivery. What was already written was then allowed to stand, and the work proceeded. The last stage was complicated by the fact that the only remaining typewriter broke, and in the end the text was copied out in rather a shaky hand by M. Todorovitch, later Secretary of the Serbian Legation in London, from the dictation of Dr. Grouitch. Two or three copies[12] were made,

[10] The general line of Serbian policy plainly had been determined long before any communication was possible with Paris, London or St. Petersburg. Nor does what we know of anxious Cabinet discussions and myriad alterations in the text fit in with the theory, sometimes advanced, that a complete "model draft" arrived from Paris.

[11] Knowing what was ahead, the Serbian Government about 4 o'clock took the precaution to send out mobilization orders. It may be worth recalling that as early as July 11 Count Berchtold wrote the German Ambassador to explain that the delay in presenting the ultimatum was in order to allow the Austro-Hungarian military authorities more time for perfecting plans for sudden mobilization. By July 19 he was able to give the Council of Ministers the schedule for the surprise presentation of the ultimatum, the receipt of the inevitably unsatisfactory reply, and instant mobilization ("Austrian Red Book," Part I, p. 54).

[12] One of these copies, in the handwriting of M. Todorovitch, is now in the archives of the Foreign Office at Belgrade. Even this final text shows that at the very last minute one or two changes were made, notably by the elimination of a two-line phrase, within parentheses, in the third of the numbered paragraphs. Perhaps this was the phrase which the Cabinet wanted changed when they sent for Dr. Grouitch. The writer has photostatic copies of this document, as also of the following documents in the Belgrade files: The Austrian ultimatum, together with Giesl's covering letter dated 6 p. m., July 23, 1914; Giesl's letter dated 6 p. m., July 25, severing diplomatic relations; Berchtold's letter of July 26 to Jovan Jovanovitch, Serbian Minister in Vienna, handing him his passports; the telegram from Berchtold to the Serbian Minister for Foreign Affairs, received at Nish, declaring war.

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besides the original. The latter Dr. Grouitch put in a long envelope and took over to the Council of Ministers about ten minutes before 6 o'clock — the closing ten minutes of the forty-eight hours of grace. Premier Pashitch took it, put it under his arm, and started off to deliver it in person at the Austro-Hungarian Legation. As his colleagues watched him go down the steps they knew that the fate of their country was in that envelope.

Baron Giesl can barely have glanced at the note, a document of nine closely written pages, for five minutes after its receipt he had signed the letter (which must have been already prepared) stating that the reply was unsatisfactory; and twenty minutes later he was at the station, bag and baggage, accompanied by the Legation staff. The members of the diplomatic corps were there to salute him. Across the platform, by a bit of irony, stood the Prince Regent's train, waiting to carry him south. By 6:40 — fifty minutes after receiving Premier Pashitch's visit — Baron Giesl was across the river in Austro-Hungarian territory. To all intents and purposes the war had begun.

After the war, the Ministry of the Interior of the new Kingdom of Serbs, Croats and Slovenes installed itself temporarily in the old Austro-Hungarian Legation. One day in 1921 there appeared there an elderly gentleman, a former Austrian subject, who wished to be naturalized as a Jugoslav citizen so as to secure the pension granted to former enemy army officers living in the recently annexed territories. It was the Baron Giesl, seeking amid the ghosts of his vanished Empire a favor from the authorities whom he had brushed aside so impatiently seven years before as he strapped up his brief-case and rattled off to the station.

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# DICTATORSHIP IN SPAIN

*By R. T. Desmond*

## I. THE MILITARY DIRECTORY

IN the great painted hall of the Ministry of War on September 15, 1923 — two days after the *coup d'état* — General Primo de Rivera announced that within a few weeks he expected the Spanish people to designate capable citizens to whom the duties of administration might be confided. General elections were to be held forthwith, and the electors, unfettered by allegiance to any political group, were to pronounce their will. It was not his intention to undermine the Constitution. Responsibilities in all branches of government, civil, military and judicial, were to be strictly exacted. Former ministers were to be tried. In particular, the Foreign Minister, Señor Alba, was to be arraigned for his conduct in negotiating commercial treaties with the United States, France and Great Britain which were judged criminal. These were a few of the first-hour announcements, never fulfilled. Thirty days stretched to a hundred, a hundred to a thousand, — and general elections are as far off as ever.

Marquis de Alhucemas, outgoing Prime Minister, wrote to General Primo de Rivera that he desired his trial to take place as soon as possible. It was never begun. Within three months of the scathing denunciation of the commercial treaties and the alleged illegality of the rebates contained in them (they exceeded the 20 percent stipulated by a basic law), General Primo de Rivera had negotiated a commercial treaty with Italy which contained even greater rebates than any granted to the United States, France or Great Britain by Señor Alba. Was this mere cynicism? Rather would it seem that General Primo de Rivera by adapting his conduct to realities was rapidly acquiring the flexibility which is so necessary in the conduct of public affairs. There is an apprenticeship for dictators as in other activities of life.

The first-hour reforms in the Administration, so spectacularly undertaken, soon fizzled out. The wives of functionaries were not long in getting back the use of their husbands' official motor cars and the lobbies of the Ministries were soon as full of loafers as before. General Primo de Rivera could only build with the material to hand, which remained the same. *Pronunciamentos* may

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change the names of things but not their nature, and Spanish characteristics are tenacious.

The first efforts of the Military Directory were heroic. Every act of administration was centralized in the hands of nine generals and one admiral, the youngest 47 and the oldest 63, who in turn hardly dared breathe without consulting General Primo de Rivera. But before the year was out (December, 1923) the suppressed posts of under-secretaries at the Ministries were re-established and the strain on the Directory relieved; also the anxiety in the departmental offices.

One of the first resounding acts of the Directory was to dissolve the 9,254 municipal corporations existing on Spanish territory, so as to bring home to the remotest villages the fact that a new broom was being wielded energetically. The Royal Decree ordered that committees of tax-payers should immediately elect new municipal authorities. They did so, with surprising results. A young lawyer, whose inattention to duties at the Ministry of Public Works where he was a clerk had made him one of the victims of the Directory, found himself installed as Mayor of Madrid, first magistrate of the capital. At Barcelona a professor of Greek was placed at the head of the city's affairs. Very soon these gentlemen had to be removed, which proved, apparently, that the judgment of tax-payers could not be trusted. Thereupon the system was reversed. The *alcaldes* (mayors) were chosen by the Directory and appointed without reference to the tax-payers. Beside them were set up in each district army officers, dubbed Military Delegates, deputed to act as counsellors of the mayors and inspectors of the new local life. By this measure supreme authority, centralized in the palace on the Castellana Avenue in Madrid, headquarters of the Directory, completed its own line of communications out to the smallest hamlets, quite apart from the regular administrative channel (mayor, prefect, home minister). The Military Delegates saw to it that orders from Madrid were promptly obeyed, and when municipal bodies were requested to send in their accounts, liquidated up to date, there were quite a number of suicides of Municipal Secretaries who found it impossible to comply.

It took six months for General Primo de Rivera to discover the realities of the situation and make the changes necessary to meet them. The Directory was only settling into the saddle for work when the Moroccan problem took an acute turn.

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It will certainly be recognized as one of General Primo de Rivera's best qualities that whenever a difficulty arose he faced it boldly and took all the responsibility for handling it. Therefore, when it became apparent that General Aizpuru, High Commissioner in Morocco, was not equal to his task, that the famous Sheriff Raisuli was a broken reed instead of the mainstay of order in Djebala, that the Spanish Expeditionary Force was in danger of disaster, General Primo de Rivera did not hesitate to assume the command in Morocco himself. He transferred his headquarters to Tetuan in September, 1924, and the first anniversary of the Dictatorship passed in somewhat depressing circumstances. The Spanish army in the Western Zone was in full retreat. Two hundred posts were abandoned with much loss of military stores and armament and numerous casualties in killed and wounded. Raisuli, too ill with dropsy to ride and too stubborn to allow himself to be moved, remained behind in his mountain fastness at Tazrut.

Thus the Directory entered upon its second year with few or none of its early promises fulfilled. At home, its chief administrative achievement had been to promulgate on paper a new Municipal Law which it had not had the courage to bring into force. Across the Straits the problem of the Protectorate had become more embarrassing than ever.

During the first year, nevertheless, two things had become apparent. In the first place, the Directory would have to remain in office far beyond General Primo de Rivera's first previsions. Second, no serious opposition to the Directory was to be feared. No party relished the responsibilities of the Moroccan situation. Secretly the enemies of the Directory hoped that Morocco would prove to be the rope with which the Dictator would hang himself.

In assuming command at Tetuan without relinquishing leadership of the Government, General Primo de Rivera followed the precedent created by General O'Donnell in 1860. After an interval of more than half a century the same causes were producing the same effects and a mere Moorish chief was challenging once more the high destiny of Castille. Like O'Donnell, Primo de Rivera was to vanquish the Moor, but, as will be described later, he was also bent on a final solution of the Moroccan problem as it affects Spain. His determination on this point is one of the main guiding principles of his policy.

During the second year of the Dictatorship, General Primo de

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Rivera remained almost constantly at Tetuan. Abandoning Sheshauen, he extricated the columns from the hills of Djebala and brought them back behind a strongly fortified line named the Primo de Rivera line, stretching from the French Zone near Alcazar round to the mouth of the Rio Martin on the Mediterranean. This line was essential to cover the territory of the International Zone of Tangier. Behind it the Spanish Army could await events.

This prudent policy undoubtedly caused the eventual undoing of Abd-el-Krim, for after several prolonged attempts to break the Primo de Rivera line, which held even when a rebellion of the Anjera Tribe threatened it from the rear, the Riffi leader gave up the struggle. Finding his plans for capturing Tetuan and Tangier frustrated, but desirous of maintaining the initiative in attack, the importance of which he seems to have recognized, Abd-el-Krim sought a new front and committed the fatal mistake of attacking the French posts on the northern heights of the Ouergha valley. Owing to its initial success Abd-el-Krim's attack on the French accomplished what statesmen and their treaties had failed to bring about, namely a practical agreement for co-operation in the mission common to both countries in Morocco. But before the Madrid Conference in June, 1924, laid the foundations for the Franco-Spanish military *entente* some perilous moments were to be passed and many obstacles overcome.

While the fighting was proceeding on the Primo de Rivera line the Tangier International Statute was being negotiated at that town within sound of the guns. Failing to get Tangier included in the Spanish Zone, General Primo de Rivera endeavored to obtain compensation in the form of an extension of the sovereign territories round Ceuta and Tetuan, from the original narrow limits out to a radius of six miles. In this also he failed, though he secured from the Sultan (France) facilities for water supplies for Ceuta and Tetuan from inland springs. Finally the Spanish delegates signed the Tangier Statute at Paris early in February, 1924. An official note explained that the Spanish Government only acceded at the last extremity. The efforts at present being made by the Spanish Government to reopen the Tangier question demonstrate that General Primo de Rivera is tenacious and that when he gave way in 1924 he was but stepping back to get a run to jump further at the next opportunity.

At the beginning of 1925 the tussle between the Directory and

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the intellectuals came to a head with the attacks of Blasco de Ibañez on King Alfonso. From the first the strict censorship over newspapers and political meetings was greatly resented by the Liberal intelligentsia. Don Miguel de Unamuno, ex-Rector of the University of Salamanca, made himself the champion of free speech. His political speeches and writing became so objectionable and even libellous that he was exiled to the island of Fuenteventura in the Canaries at twenty-four hours' notice. The "Ateneo," a debating and literary club in Madrid, was closed down, except for its library which was left open to the public. These measures echoed abroad. Gabriele d'Annunzio sent out a ringing message to Liberal Youth in which he said that "the entrails of the horses disembowelled in the bull-ring seem less sinister than the sanguinary brains of Spain's imbecile leaders." It was an attempt to raise another *légende noire* about Spain, such as was created over the Ferrer case in 1909. It failed completely owing to the bloodless character of General Primo de Rivera's "tyranny." Señor Blasco de Ibañez' aeroplanes appearing over Spanish towns strewed his pamphlets in vain. If the foreign campaign achieved anything it was to stir up the patriotic feelings of the Spaniards.

On March 20, 1925, a new Provincial Statute was promulgated. Because it maintained the division of Spain into forty-nine provinces it was a great blow to Catalonia; it was the formal repudiation of the promises General Primo de Rivera had made when seeking support for his *coup d'état*. On September 13, 1923, General Primo de Rivera took with him to Madrid the sympathies of the Regionalists who in Catalonia represented the mass of the population. The Separatist Catalans are really very few, but they are noisy and active. The early measures of the Directory confounded Separatism with Regionalism, and prohibition of the Catalan language in churches, as well as of traditional songs and dances, created great resentment. Former Governments had granted to the four Catalan provinces the faculty of associating their forces for the purposes of local government (schools, roads, etc.). The organization resulting from the amalgamation, called the *Mancomunidad*, had flourished exceedingly. Its university in Barcelona rivalled that of the State and it maintained technical schools and laboratories. When the Provincial Statute was promulgated the *Mancomunidad* was abolished and the labor of ten years of "*Regionalismo*," as distinct from

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"*Separatismo*," all but destroyed. The professors from the *Mancomunidad* institutions went to swell the ranks of the disgruntled intellectuals.

While striking with might and main at what he considered pernicious manifestations of Separatism, General Primo de Rivera never ceased to proclaim his sympathies for Catalonia and its laborious population. His vigorous rule kept labor agitators quiet and after a few summary executions of criminals caught red-handed the notorious Barcelona pistolmen vanished.

While seeing to it that peace reigned in labor circles, General Primo de Rivera was careful to keep up the high tariff protection that Catalan industry needs. He thus kept on excellent terms with a section of Catalan opinion. The wealthy manufacturers of Catalonia, with the help of funds voted by the Municipality, built and offered a new palace to King Alfonso. Pedralbes, a villa in the Italian style, was inaugurated with great pomp early in June, 1925, by the royal family. A special train had been provided to bring the diplomatic corps as well as the Court to Barcelona. It was therefore unfortunate for General Primo de Rivera's assumption that all was right in Catalonia when an elaborate plot was discovered to blow up the Government and royal train in a tunnel. The persons incriminated were not common criminals. Although the trial was kept secret, enough evidence leaked out to show that the crime contemplated was prompted by political motives, and that Catalan nationalist fanaticism was at the bottom of it. General Primo de Rivera, however, did not flinch; he continued to visit Barcelona and on one of these visits a second attempt to assassinate him was made by a fanatic. While this is being written he is again at Barcelona, and the King holds court at Pedralbes.

The summer of 1925 kept General Primo de Rivera busy in Morocco. By June, Abd-el-Krim's march on Fez had been checked and the French military authorities had the situation in hand. The lost territories and prestige had to be recovered, however, and for that purpose Spain's coöperation was precious, not to say imperative. A certain section of opinion in Spain had seen the French reverses, if not with pleasure at least without distaste, thus corresponding to the attitude of a part of French opinion when the Spaniards were in difficulties. Luckily more generous and statesmanlike views prevailed in high quarters.

When the Franco-Spanish Conference met at Madrid in June,

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1925, the task before the delegates was delicate; but it was approached in a spirit of friendly collaboration. "We are called upon to lay the foundations for a Franco-Spanish *entente*," said General Gomez Jordana, a member of the Directory, elected chairman of the Conference. Coördination of military effort, solidarity in the presence of the enemy, a loyal union covering common interests, were the principles that governed the Conference and enabled a solid basis for the military *entente* to be laid. On July 26, the agreement was signed that proved Abd-el-Krim's doom. The next day Marshal Pétain and General Primo de Rivera met at Ceuta and the latter took the hero of Verdun to his Headquarters at Tetuan where, at the foot of the frowning hills of Beni Hozmar, the military coöperation of France and Spain was sealed. At the same hour a French naval division steamed into Santander Bay and saluted the royal standard flying over the Magdalena Palace.

While vigorously attacking the French, Abd-el-Krim engaged the Spaniards with peace talk. He found General Primo de Rivera quite willing to envisage peace seriously, but former sad experiences with Raisuli's duplicity placed the Spaniards on their guard, and they required guarantees. While the Madrid Conference was sitting, Señor Echevarrieta, a Bilbao mine-owner who had been the intermediary for the ransom of the prisoners of Annual, proceeded to Alhucemas Bay in his yacht and had an interview with Abd-el-Krim in the gorgeous-hued tent taken from Raisuli. The Moorish chieftain proved unbending; his terms were preposterous. Evidently there was nothing for it but the sword.

At the end of August, Marshal Pétain and General Primo de Rivera met again at Algeciras, and a Spanish disembarkation at Alhucemas Bay was discussed. General Primo de Rivera had made every preparation for this operation; transports were ready, operation orders had been worked out in detail. The capture of Abd-el-Krim's headquarters at Ajdir, where he had inflicted untold indignities on Spanish prisoners within sight of the Spanish flag on Alhucemas Island, had been from the Spanish standpoint one of the main objects of five years' campaign since the Annual disaster. Marshal Pétain urged that the landing should take place before the autumn equinox, and promised French cooperation, but the Spanish General Staff reported unfavorably and the chief of that body was no less than Captain-General

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Valeriano Weyler, holding the highest military rank after the King.

The landing was undoubtedly in the nature of a great adventure owing to the treacherous nature of the coast, the Levanter winds, the prowess of the enemy and the difficulties inherent to all disembarkations on a coast defended by trenches and cannon. The Primo de Rivera lines were strong. It was proved that the enemy could be held at bay indefinitely. Why, then, vary a policy that was giving satisfactory results? But General Primo de Rivera was bent on a final not a temporary solution of the Moroccan problem. He went to San Sebastian to inform the King of his resolution to attempt the landing and returned to Morocco to carry it out. He sailed from Spain at the head of over a hundred vessels, of which 32 were Spanish warships and 18 French, placed under his command, a proof of confidence and an honor he greatly prized. On September 8, 5,000 men were landed with only 50 casualties at Cebadilla Cove outside the western horn of Alhucemas Bay. When the Riffis rallied there was some stiff fighting, but on October 1, Ajdir was in flames. The beginning of the end had come for Abd-el-Krim.

During General Primo de Rivera's year at Tetuan his colleagues of the Military Directory had become restive, and now pressed upon him the advisability of forming a civilian cabinet, representing that the first step for a transition back towards constitutional rule was long overdue. On December 3 the change took place. But the President of the Military Directory on becoming Prime Minister of a civilian cabinet remained no less a dictator than before. Instead of a military, a civilian and economic dictatorship was in office. In one respect, however, there was a great difference between the new cabinet and the Military Directory; whereas the Generals took decisions in common and only had one channel of communication with the King on one hand and the administrative departments on the other, each new minister was responsible for his department and submitted all necessary Royal Orders for signature directly to the King.

In choosing collaborators General Primo de Rivera searched for new blood for the departments where the administration had to be lifted out of secular routine — Finance, Public Works, Foreign Affairs and Labor. He placed tried officers at the War and Navy offices. Justice and Education were given to nominees of the Patriotic Union, the Party which he had created and upon

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which so much was to depend under the new *régime*. An important innovation was the appointment of a Vice-Premier, in the person of General Martinez Anido, the staunchest supporter of the Directory, who was also made Home Minister. (It is important to remember that the Home Office has under it the Civil Guard, a horse and foot constabulary distributed all over Spain.)

The change-over took place quite smoothly. When the Military Directory was dissolved, a Royal Decree publicly thanked all ranks of the Army for the support given to the military *régime* but warned them that they must abstain from all participation in politics in the future. The new press censor ( the same Lieutenant-Colonel as before, but in mufti) loosened his grip for a couple of days. Immediately the press began to murmur. "What forward step is this," the Madrid *Sol* asked, "in which Ministers replace Generals without any essential modification of the dictatorial régime?" The hand came down again.

As the foregoing rough summary shows, the Civilian Cabinet took over a situation well in hand. The Generals had accomplished no great reforms but they certainly had paved the way for their successors and handed over an administrative machine that had not suffered in their care. Much useful work had been done — roads had been mended, Municipal Councils had been encouraged to improve their cities and towns and given the wherewithal to do so, a new railway statute had been passed enabling the companies to obtain State financial aid, conditions of land tenure had been improved and a system of agricultural credit organized. The Generals of the Directory got into touch with the remotest districts in Spain and took the King to visit regions where royalty had never trod, such as the Val d'Aran, a strip of Spanish territory on the north side of the Pyrenees which had no means of communication with the mother country during the winter months. In the course of the general revision of laws the Directory found that 300,000 Spaniards living in America were exiles, having emigrated from Spain before fulfilling their military service: a pardon was granted to them. Few aspects of public life escaped the attention of the Directory.

### II. THE CIVILIAN DICTATORSHIP

General Primo de Rivera is surrounded by collaborators in whose initiative he trusts.

The High Commissioner in Morocco, General Sanjurjo (created

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Marquis Malmusi), carried on the campaign in Morocco in close *liaison* with the French, brought the operations against Abd-el-Krim to a successful conclusion, and subsequently patrolled the Spanish Protectorate from end to end.

Señor Calvo Sotelo, Finance Minister, has the heavy task of preparing a Budget not only securing new revenue to meet the chronic deficit but also resources to provide for the huge expenditure required by vast plans of economic development. The Military Directory reduced the deficit to 567 million pesetas in 1924–1925 and renewed some 2,000 million pesetas worth of short-term floating debt for five year terms instead of one or two year terms. But the definitive funding of this large sum, besides finding the new revenue necessary, presents a serious problem. The Minister recognizes that it is necessary to shift the incidence of taxation. According to figures compiled in his Department, income from land estimated at a gross 10,000 million pesetas only yields the State 180 million pesetas. Taxation weighs far too heavily on the working section of the community. For new revenue the Cabinet counts largely upon the expenditure on public works proving remunerative and increasing the revenue-bearing power of the country by at least 25 percent in five years. Protection of national industries is very generous; those already established enjoy a tariff protection which is almost prohibitive to foreign imports, while new industries receive loans at a low rate of interest and in some cases are even guaranteed interest on their capital and given exemption from taxation.

Count Guadalhorce, Minister of Public Works, is putting into execution plans conceived on a grand scale. His program, covering an initial period of six years, is based on the ultimate capitalization of the annual expenditure grants to his Department should funds not otherwise be forthcoming. A sum of 300 million pesetas are estimated for the re-making of 4,000 miles of roads so that they may be fit for heavy motor traffic. For the railways, an expenditure of 2,500 million pesetas is expected to suffice to complete the present system by building 3,176 kilometers of national railways, besides 4,089 kilometers of regional and 1,877 kilometers of local lines. The plans also include the laying of double tracks where necessary and the electrification of traction over the steepest gradients and where traffic is most intense. Count Guadalhorce's plans are on the grandest scale in regard to hydraulic power. He is endeavoring to organize water resources

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by grouping them according to river basins. A conspicuously successful beginning has been made with the formation of the Ebro Hydraulic Confederation, in whose hands are concentrated all irrigation works, dams, power-stations and concessions concerning water on one-seventh of the soil of Spain. The Ebro scheme would ultimately irrigate 5 million acres and produce 1,725,000 h. p. instead of the 300,000 h. p. produced by the Ebro and its tributaries at present.

These great plans for economic development greatly benefit Spanish labor. They also offer extraordinary opportunities, not only to Spanish but to foreign groups, on the condition that the companies formed be Spanish. An American group, constituted into the Compañia Nacional de Teléfonos, secured from the Military Directory two years ago a monopoly to take over, rebuild and exploit the whole telephone system in Spain. The venture, much criticized at the time, has so far proved eminently successful, the telephone service having been vastly improved and extended. Foreseeing extensive electrical developments, German firms are forming national Spanish companies; a famous British firm of locomotive manufacturers has already done so. General Primo de Rivera may claim that he has already effected a wonderful change in the Spanish industrial outlook.

The Cabinet's optimistic economic policy may strike many rocks. The prolonged drought this summer has ruined the maize crop in north-west Spain, made the olive crop a poor one, and impaired the wine crop. This means that maize will have to be imported from South America, and that there will be reduced sales of olive oil and wine. The bumper harvests of the last two years contributed to the improvement in the exchange value of the peseta, and procured more revenue for taxation. Now comes a lean year to mar a rosy picture. Nor is it certain that the administrative machine will prove equal to the burden placed on it. Great Government contracts running into many millions of pesetas require an iron administration to avoid abuses.

Though it encourages home industries, Spain's new policy is affecting old-established relations with other nations. Great Britain, who purchases from Spain nearly double as much as she sells her, is hit by the Spanish restrictions on coal and steel importations. The dumping of French products is prevented by depreciated exchange coefficients. The trade of the United States with Spain, which greatly increased in recent years, is threatened

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by the imposition of higher duties on motor cars and by the extension of cotton growing.

General Primo de Rivera has handled Spain's foreign policy as energetically as her home affairs. His first venture was to take King Alfonso and the Queen to Rome. Several *beaux gestes* were made there. King Alfonso was the first Spanish sovereign to visit Rome since the *Risorgimento*. Facing the Quirinal, he stood proudly in the presence of the Pope and offered to lead a crusade. General Primo de Rivera fraternized with Mussolini. This voyage had some practical results. Although His Holiness disregarded certain privileges which King Alfonso claimed for Spain — and even for South American prelates — and although Italo-Spanish commercial coöperation has not proved feasible, nevertheless the visit of the Dictator resulted in a treaty being signed in Madrid last August which quietly created a new situation in the Mediterranean. This treaty, known as the Pact of Madrid, provides for arbitration in case of a dispute, and stipulates that either party shall remain neutral in case the other is the victim of unprovoked aggression. Both Rome and Madrid state that the Pact of Madrid does not interfere with the obligations of Spain and Italy in connection with the League Covenant. (Since signing the Pact, Spain has withdrawn from the League.)

But Morocco is the focus of interest in the understanding between the two Dictators. General Primo de Rivera seems determined to obtain Tangier for Spain or to seek some means of relinquishing the Protectorate. In a public statement made a few weeks ago he said:

> "My only diplomacy is sincerity. . . . It is an injustice and an error to exclude Tangier from the Spanish Protectorate. It shows a lack of confidence in Spain's capacity to administer it or in her loyalty to keep it neutral in an eventual contingency. After seventeen years' effort in Morocco, after passing the test of a difficult neutrality during the Great War, after having sacrificed thousands of lives and millions of pesetas, Spain is not asking too much of the nations concerned to agree to the inclusion of Tangier in the Spanish Protectorate and to entrust its administration and the maintenance of its neutrality to Spain. If we do not succeed in this it will be a question whether, seeing that the honor of our arms has now been brilliantly vindicated, it is worth our while to continue expending treasure to contribute to maintain in international Tangier a focus of intrigue and a base for the re-armament of the tribes. . . . Those who do not see the problem in this light are blind and will weep for their error, for it will not be long before Tangier gives rise to grave international difficulties."

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There can be no doubt that General Primo de Rivera is in dead earnest when he uses such language. His foreboding — it can hardly be called a threat — is in some respects strange, for it may be asked what can Spain do but merely retire? The Franco-Spanish Treaty of 1912 provides what shall happen if Spain relinquishes the Protectorate; her rights are not alienable; they devolve on France. The integrity of the Shereefian Empire is guaranteed. The point is, however, that for Spain to retire would alter the territorial *status quo* in the Mediterranean, which would give Mussolini the opportunity he seeks.

What would best suit Spain's interests in every way would be the realization of General Primo de Rivera's contention formulated as early as 1917: "Ceuta for Gibraltar, and to Hell with the rest of the Spanish Protectorate." Doubtless the Dictator (who, as Military Governor of Cadiz, was punished severely for making the speech containing this proposal) has not changed his mind. Unfortunately, the British Admiralty objects to the exchange. Although Italy cannot help in the removal of Gibraltar nor take over the Spanish Protectorate Zone, it must be remembered that Ceuta, Melilla and the Peñones (Alhucemas and Gomera) are sovereign territories. Should Spain abandon the Protectorate what use would these establishments across the Straits be to her any longer? In abandoning the Protectorate she would be cutting her losses and ceasing to throw good money after bad. Could she retrieve some of the treasure sunk in Morocco by the sale of her remaining rights on the inhospitable coast she would be doing a stroke of good business. What price Melilla and Ceuta? It is a question that might well be asked by Spain. Would there be offers? Would not Italy first have to break the agreement regarding Lybia before she could make one?

The complications suggested by the very definite manner in which General Primo de Rivera has posed the problem of Tangier in relation with the Spanish Protectorate are many, for it seems almost inevitable that Spain will refuse to be satisfied with any concessions France and Spain alone can grant. Should the impending tripartite conversations between France, Spain and Great Britain fail, a conference of the signatories of the Treaty of Algeciras (which regulates the present position in Morocco) would be unavoidable. And how could thirteen Powers meet without issues other than Tangier being raised?

In some quarters the suggestion has been heard that Spain be

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granted a mandate over Tangier under the League. Such a course would once more introduce Germany — now a League member — to the Moroccan scene. This would be a violation of the Treaty of Versailles. Tangier still has wonderful possibilities as a political hornets' nest.

Spain's withdrawal from the League appeared inevitable from the moment her claim for a permanent seat was stated crudely and definitely. The League Council could not give way; Spain would not. From the first Spain was in dead earnest and had deliberately determined to withdraw rather than surrender. The manifest inexperience of the young Foreign Minister at Geneva may have impressed other nations unfavorably, but the determination to go through with Spain's claim was made over his head. It was a spectacular if somewhat clumsy manifestation to the world that Spain had cut all leading-strings. It was executed chiefly with a view to impressing Ibero-America and demonstrating that the mother-land could be as independent as any of her daughters.

It seems probable that having made her little scene and shown the Powers that she can do what she likes, Spain will graciously take the next opportunity of re-entering the League; this may arise before she has really left, seeing that the formalities of withdrawal are wisely spread over two years. Spain, indeed, owes a great debt to the League, because her early coöperation (which was sincere and effective while it lasted) has been the ladder up which she climbed out of a long period of international isolation. Moreover, there is in the country a section of public opinion, inarticulate at present owing to the censorship, but of considerable proportions, which disapproves very strongly of the withdrawal and bitterly criticizes Señor Yanguas, General Primo de Rivera and the King.

By the closing of the Cortes the King's voice in questions of foreign politics has gained in weight. Being Dictator as well as Prime Minister, General Primo de Rivera has no Foreign Affairs Committee or debate in the House to give him a cue or counsel or support. It must all be done "off his own bat," and it is known that King Alfonso and the Dictator settle such matters between them, though General Primo de Rivera must constitutionally take all the responsibility. If things turn out well this will be all right, but should the Dictatorship fail a question of *Responsibilidades* would arise beside which the 1923 ques-

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tion (which figured so largely in the causes of the *coup d'état*) would be child's play. So much of the Constitution has gone overboard that it may be difficult to fix a dividing line between the responsibility of the Prime Minister-Dictator and that of the King.

The Spanish monarchy is a co-sovereignty exercised by the King and the nation. The nation's organ of expression is the Cortes (Chamber of Deputies and Senate) and to the King the Constitution confided the "obligation" of seeing that a Cortes should always be in existence with a maximum interval of three months. King Alfonso has disregarded this injunction of the Constitution, though he was solemnly reminded of it by the ex-Speakers of the Cortes. By violating his oath to guard the Constitution he is therefore directly responsible towards the nation.

Such is the constitutional question. Liberal and Liberal-Conservative opinion in Spain never rallied to the Military Directory and still refuses to coöperate with the civilian Dictatorship owing to the position taken by General Primo de Rivera and the King in this matter of the Constitution. The General seems to be seeking a path out of the impasse. When the artillery revolted and he felt acutely the necessity of having the nation's unanimous support, he hastily promised to convoke a national assembly of three hundred representatives. The peril passed. The convocation of the assembly became less pressing. Constitutionalists are inclined to see in the plan an indication that the Dictatorship intends to reform the Constitution before restoring it. What the Liberals fear is that General Primo de Rivera and the King are feeling their way back towards an absolute monarchy.

Should free elections to the National assembly be permitted the Liberals would get a chance of raising an opposition voice openly instead of being obliged, as at present, to resort to clandestine propaganda. But if the deputies were merely nominees of the Dictatorship, appointed from among the members of the Patriotic Union, the situation would be unchanged. The Patriotic Union Party at present occupies somewhat the same position as that formerly occupied by the *Caciques*, or bosses. The Union's organ, *La Nación*, is the mouthpiece of the government. Its nominees work hand in glove with the Mayors, not one of whom has as yet been freely elected as provided by the Municipal Statute, promulgated by the Military Directory more than two years ago. Other provisions of the Statute are in force, but not those granting political liberties. Under these conditions it was

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easy for the Patriotic Union, when organizing the so-called plebiscite on the third anniversary of the *coup d'état*, to gather in six million names; they were not votes, still less signatures. Nevertheless the result represented the undeniable fact that General Primo de Rivera is popular with the majority of his countrymen, most of whom prefer to be governed than to have the trouble of themselves taking even an indirect part in public affairs. In fact, they really are not prepared for it, seeing that nearly 50 percent of the nation are still illiterate. The provincial districts, which contributed most heavily to the plebiscite, are precisely those where the percentage of illiterates is highest.

The main problem is not so much "to rouse the nation" as to rally to the support of the reforms as many of the best brains as possible, and to make them collaborators in educating the rest. The Dictator's great misfortune seems to be that he has thrown into opposition against himself personally many of the most valuable elements of Spanish society.

*Vis à vis* the army, contradictions are also observable in General Primo de Rivera's position. He is popular and unpopular. He undeniably has increased the efficiency of the army and raised its prestige abroad. Comandante Franco's flight to the Argentina and the Madrid-Manila flight carried this message round the world. Rank and file acknowledge that in the field he saw to it that his troops were well found in everything that money could procure. His strategy in Morocco was well conceived and his plans carried out firmly and thoroughly. But it was his determination to do justice to those who distinguished themselves in the campaign, by instituting promotion by merit, which led to the recent artillery revolt.

The Artillery Officers' Corps represented a survival in the Spanish army of privileges elsewhere long suppressed. Recruited mostly among the aristocracy, the artillery officer was a representative of caste. Years ago, as a protest against favoritism the artillery officers resolved to accept promotion solely by seniority, and an oath of fidelity to this rule was imposed on every cadet at the Segovia Academy. In consequence an artillery officer rarely reached a high command, for advancement by seniority is slow in an army where the officer cadres are overcrowded. General O'Donnell, Duke of Tetuan, the Minister of War, thought he could alter this state of affairs by a stroke of the pen. But a privilege in Spain dies hard. The royal decree to which he

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obtained King Alfonso's signature last June was immediately opposed. The artillery officers alleged that their oath engaged their honor. All through the summer the revolt smouldered, to leap into flame finally when the Dictator determinedly supported the Minister of War. The Dictator proposed that the Crown dissolve the Artillery Corps; but the King hesitated to give his signature to a measure that might rouse hostility in other arms. Perhaps this hesitation emboldened the artillery officers, for they became openly insubordinate. General Primo de Rivera then acted rapidly. He telephoned from Madrid to the King that the Artillery Corps must be disbanded, and begged His Majesty to return immediately to Madrid from San Sebastian to sign the decree. When Don Alfonso arrived the dissolution of the Artillery Corps was already under way. Everywhere barracks were surrendered without resistance to staff officers accompanied by infantry pickets.

There are officers in high positions who do not hide their enmity for General Primo de Rivera, whom they accuse of disorganizing and destroying the army. General Weyler, whose exalted rank of Captain-General, corresponding to Marshal, keeps him on the active list until his death, is an awkward adversary. He was implicated in a conspiracy last June and fined heavily, and his accomplice, General Aguilera, was arrested. But a Knight of the Golden Fleece would figure badly on a prison list, so General Weyler remains at liberty, though closely watched.

Should the army *en masse* respond to a call from the Liberals, the Dictatorship would be doomed. But of that there seems little probability. Some think that if General Primo de Rivera were merely kidnapped the end would come. Some fear that a brusque overturn of the Dictatorship now would throw Spain into chaos. More probably the country would remain as imperturbable as it did on the advent of the Military Directory.

General Primo de Rivera is ageing visibly under the strain of his task, though he bears it cheerfully and gallantly. He does not spare himself. His hair is white, but he has a constitution of iron and a capacity for work that is enormous. King Alfonso, the Dictator's junior by fifteen years, is in full possession of his maturity. He is just forty. As long as these two collaborate the present system seems fairly secure. The Dictator would nevertheless be well advised to broaden as soon as possible the basis on which it rests.

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# RACE QUESTIONS IN SOUTH AFRICA

*By Patrick Duncan*

THE main problems confronting the Union of South Africa in respect of its colored races and peoples, and of their relations with the European population, are peculiarly complex. They call with increasing insistence for the reconsideration and readjustment of our political and industrial policies.

Our non-European peoples fall into three main groups. First and most important, both in regard to existing numbers and future potentialities, comes the native population. Then there are the people known in South Africa as "colored," who include colored people of mixed race and also a small community of Malays settled for the most part in and near Capetown. The Malays were introduced by the Dutch East India Company before the British occupation of the Cape, and have long since lost all connection with their country of origin, but retain their Mohammedan religion; their numbers are insignificant for the purposes with which we are concerned, but they are grouped for administrative and other purposes with the "colored" population. (This term, it must always be remembered, has a peculiar connotation in South Africa, in that it is used to distinguish the South African colored man of mixed race—including the small Malay community just mentioned—from the native.) The third racial element is the Asiatic, consisting for the most part of British Indians, some of whom are traders or the descendants of traders who have come here from India, but the great majority of whom are persons or the descendants of persons who were brought over from India to work as laborers in the tea and sugar plantations of Natal.

The native population at the last census (1921) numbered 4,699,433; the mixed and other colored races numbered 545,548; and the Asiatic 163,896. The total of the European population at the same census was 1,519,488. If we add to these figures the population of the territories adjacent to the Union and now administered directly by the British Government, but which may one day be included in the Union, the effect would be to add approximately 5,500 to the European population and 750,000 (all but a few of whom are natives) to the non-European. We at once

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see South Africa's peculiar position. She stands somewhere between the two principal types of countries where the white and colored races of the world are clashing.

In one type of country, of which British India is the best example, white men are there as the governing power, but do not claim that their stock will permanently take root and occupy the land. They are governors, soldiers, officials, business and professional men, but they are a small caste amidst a native population overwhelmingly larger in numbers, a population whose gradual rise in education, in the material equipment of civilization, and in political and administrative capacity will inevitably, whether sooner or later, entitle them to emerge from a state of tutelage. Such a country the white man can never claim as a "white man's land." Where he rules he does so admittedly as a trustee. Where he is living as official, trader, or professional man, he has either cut himself off from his own race, or he is there as a bird of passage with his eyes turned homeward. He does not think of the land of his residence as one with whose fortunes the future of his children is irrevocably bound up.

The other type is exemplified by the United States of America. There a population of about 12,000,000 negroes gives rise at many points to social and industrial and political friction. But, grave as are the questions which spring from these causes, they do not interfere with the sense of security with which the white citizen regards the future of his country. They do not arise from, and are not aggravated by, any feeling of doubt or fear as to whether his children or the children of his stock are in danger of seeing their place and the outlet for their energies in the country gradually encroached upon by the rising tide of a colored race. For as far ahead as he can see the effective occupation of his country will be by the white races, and the control of its destinies in their hands.

South Africa, as has been said, is in a position somewhere between these two types. Since the European first made effective settlement on its shores, about 270 years ago, he has gradually extended his hold upon the land. He has introduced his civilization, broken the power of the savage tribes who disputed his occupation, reclaimed the land to agricultural and pastoral uses, established mining and manufacturing industries. He has made the land his home. Its civilization came with him, and could not even now continue without him. And yet he sees this very civilization

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being turned against him by the descendants of those barbarous tribes among whom he had to win his way through many years of warfare. He has abolished the famines and inter-tribal wars which formerly kept a check on the growth of the native peoples, and these peoples are strong enough to withstand the physical degeneration which contact with civilization so often spreads among savages. They do not die out. On the contrary, they increase and multiply. They take their part in the white man's industries and learn in the schools and educational institutions which he provides for them. It is no more than natural, therefore, that he should watch their gradual rise in civilization, slow though it may be, with some measure of apprehension for the future of his own race. As they turn to habits of industry, monopolize (as they almost do) the unskilled labor of the country, begin to push their way into skilled trades and even professions, the white man not unnaturally has fears that they may in time so encroach upon the field which his race has hitherto regarded as its own, as to prevent its normal expansion, reduce its numbers, and in the end threaten its political supremacy.

This fear lies at the root of what is called the "native problem" in South Africa. It is responsible for much of the narrowness of outlook and intensity of feeling with which in the past the problem has usually been envisaged in South African politics.

The other two racial groups — the "colored" and the Asiatic — give rise to problems of their own, serious in their way, but the issues between them and the white man are not so far-reaching as those involved in the white man's relations with the native. In the case of the "colored" man the tendency is to associate him more and more with the European, and to draw the line, not between white and colored, but between the European, including the mixed race, on the one side, and the native on the other. Socially, it is true, the line of division is for the most part one of color. In hotels, in theatres, in trains, the color line is enforced — in the northern provinces with absolute strictness, and in the Cape, at any rate in Capetown and its surrounding districts, with a little more latitude. In the Cape the trade unions admit the skilled colored worker to membership on equal terms. In the northern provinces he is excluded, and indeed he is not regarded by his white fellow workers as having any right to be a skilled worker at all. But there can be little doubt that the present trend of policy is to find a place for the "colored" man in the

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ranks of the European. This finds expression in the recent proposals laid before the country by the Prime Minister for a complete readjustment of the relations of the European and the native. The underlying principle of these proposals is segregation of the native from the European, and the "colored" population for this purpose is classed with the European, although outside the Cape Province it is likely to be some time before full political equality is conceded to them.

The third group — the Asiatic — consists, as has been said, almost entirely of Indians, and they are confined in great part to the Province of Natal. The census of 1921 showed that of a total Asiatic population in the Union of, in round figures, 164,000, approximately 142,000 were living in Natal. These are for the most part people who were brought in as laborers for the sugar and tea plantations, and their descendants. A certain number of them return to India, and the Government encourages this movement by allowing them a free passage and a cash payment on arrival in India. Of those now in Natal, however, nearly two-thirds have been born there, and in their case naturally the idea of returning to India becomes less and less attractive as their connection with it becomes more remote. Since 1911 no more Indians have been brought in as laborers, and since 1913 the immigration of Asiatics into the Union has been completely stopped by the Immigrants Regulation Act of 1913, which empowers the Government to prohibit the entry of any person or class of persons deemed by them on economic grounds, or on account of standard or habits of life, to be unsuited to the requirements of the Union or any particular province thereof. By the exercise of that power Asiatics as a class have been deemed to be prohibited immigrants.

Even inter-provincial migration is forbidden to the Asiatic, with the result that, while the trouble arising from the presence of the Indian population has been localized to the Province of Natal, it is all the more acute there, because the impact has to be borne by a comparatively small European community. In fact the Indian population in Natal was, at the last census, slightly in excess of the European. In the other provinces the competition of the Indian traders gives rise to a certain amount of agitation on the part of the Europeans in the smaller towns who consider that his low standard of living gives the Indian trader an unfair advantage against the European, and leads to a gradual transfer of the petty retail trade into the hands of the Indian. In Natal,

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however, the clash of the two races is more serious. The children of the Indians who came in as laborers get education, and aspire to rise in the social scale. They become semi-skilled or skilled workmen, clerks and professional men. In Natal, therefore, what is called the "Indian menace" is a burning political question, and drastic action is demanded from the Government as necessary for the preservation of the white man and his western civilization. The census results, on the other hand, do not afford any evidence of restricted expansion of the European population. On the contrary, the census figures for 1921 showed an increase of about 40 percent in the European population of Natal as compared with the previous census of 1911 — a much higher rate of increase than in any of the other provinces. A census of the European population of the Union, which was taken this year, shows an increase of the European population over the figure of 1921 of 15.6 percent, which again is a considerably higher rate of increase than in any of the other provinces.

The agitation against the Indians, however, is not likely to fade out in the cold light of census figures. In its extreme form the demand is for nothing less than the complete repatriation or expulsion of the Indians; but, as this is generally admitted to be an impossible solution, the demand has for its immediate object that Indians be prohibited from acquiring land, and that they be restricted from trading except in areas specially set apart for them. A conference is planned between the Union Government and the Government of India with a view to arriving at an agreed policy, which will reassure the European as to the maintenance of his western standards of civilization without imposing intolerable and humiliating restrictions upon the Indians. A conference such as this is quite a new feature in the long history of repressive legislation against Indians in South Africa, which goes back to the days of the Boer Republics before the Anglo-Boer War of 1899–1902. Formerly the British Government, as the superior power, endeavored to see justice done to the Indian, but its intervention usually had the effect of aggravating the Europeans without securing substantial relief for the Indians. Now the Indian Government and the Government of South Africa deal directly with each other, and Indian statesmen have for the first time an opportunity of meeting the South African Government on common ground.

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It will be seen, therefore, that the questions which arise out of the relations of the white man with the two last-mentioned groups are side issues as compared with those arising between the European and the native. There is the real race clash.

There are certain fundamental differences between the position of the native here and that of the negro in the United States in relation to the population of European stock. In America the negro population is an alien element, which was introduced by the white community itself for the purpose of servile or unskilled labor, and which has gradually raised itself in civilization and efficiency. In that respect its closest analogy in South Africa is to be found in the Asiatic population, already described. But the native here in Africa is in his home. The white man found him here when he came, though it is probable that the Bantu tribes, who form the largest and most virile section of the native population today, made their appearance in what is now the Union of South Africa not very long before the white man. They spread over the land in nomadic fashion, subduing or exterminating the people whom they found there. They imposed themselves upon the land by superior organization and fighting power, just as the white man, when they met, did upon them; but their conquest was the conquest of savagery, not of civilization.

The other main point of difference is that the native population here is to a great extent still living under its primitive tribal organization. Its chiefs, of course, have not the powers of life and death over their subjects as they used to have, nor can they indulge in tribal wars or cattle raids. In many other ways, too, the contacts of civilization are undermining their old authority, and the whole system is slowly but surely breaking down. Economic pressure has driven the able-bodied men in thousands out to seek work in the white man's industries. Many of these retain their connection with their tribal home and in the end return there to stay. But many others break away from it and settle permanently in the towns and industrial centres. It is estimated that about 500,000 natives have become permanently de-tribalized in this way. Others occupy land on the white man's farms as labor-tenants. Others, in certain districts of the Cape Province, possess small holdings as peasants in individual ownership. But of the rest the vast majority are living under the old tribal conditions, subsisting on the produce of the tribal lands on the old communal system, supplemented by the earnings of those

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who go out from time to time for longer or shorter periods to work for the European.

It is now time to turn to the European's side of the picture and see in what way the political and industrial conditions which he has made for himself are affected by the gradual rise of the non-European peoples in civilization and in industrial efficiency.

The Union of South Africa was brought into existence in 1910 by the coming together of the four British colonies (as they then were) of the Cape of Good Hope, Natal, the Transvaal and the Orange River Colony. The two first were British Colonies of long standing — the Cape for over a century, and Natal from its beginnings as an European settlement. The two others, formerly independent republics — subject to an ill-defined claim of British suzerainty as regards their foreign relations — became British colonies by annexation in the Anglo-Boer war. At the National Convention, at which the new Union Constitution was drawn up, the idea of uniting on federal lines was deliberately rejected in favor of the principle of unification. The Constitution was drawn on that principle, and the four colonies, which now became provinces of the Union, gave up to the new Union Government all powers of government except in regard to matters of local and subsidiary concern.

The Constitution, however, which brought about unity in government and administration, could not reconcile the divergent policies and outlooks which had prevailed in the different colonies in the matter of the native and colored races. It was again a case of a color line dividing north against south. In the south the Colony of the Cape of Good Hope, ever since its Constitution Ordinance of 1853, had drawn no color or race distinction in the qualifications required for the exercise of the vote. Its franchise rolls were open to any man who was a citizen and could fulfill a comparatively low property and education test, whatever his race or color might be. But in the two northern colonies a hard and fast color line ran right through all relations of white and black. The old republican constitution of the Transvaal had laid down as one of its fundamental principles that there should be no equality in church or state between white and black, and this principle was, in both, rigorously observed in every department of life. When, after the British annexation, responsible government was granted to the two new colonies, the franchise law preserved the old color line, so that the people should have the opportunity

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of deciding for themselves on so vital a question, and the right to vote was, as it had been in the republics, based on white manhood suffrage. In Natal, which when it received responsible government was a handful of European colonists surrounded by a vast and uncivilized native population, the native was not, in express terms, excluded from the franchise, but the conditions permitting him to be enrolled were such that only a few have ever qualified. The framers of Union found it impossible to agree on any common policy on this question, and, in consequence, it was simply left alone in the hope that time would bring about some approach to a common outlook. The old franchise laws were left in force, with the provision that the Cape laws were not to be altered so as to exclude persons on grounds of race or color except by a two-thirds majority of both Houses of the Legislature sitting together. That is where we stand today in the matter of the parliamentary vote. In the northern provinces the same color bar excludes any man of color from the right to vote for local and municipal councils.

The Union is now sixteen years old — a very infant among the nations — but, even in that short time, some progress is noticeable in the evolution of a common outlook on questions arising from the relations of European and non-European races. Where these questions affect the government of the country, they have to be dealt with, not as before in four separate and independent compartments, but as national questions by a parliament and government representing the whole people. The mere fact that the Legislature sits in Capetown has brought the members from the northern provinces face to face with a more liberal outlook. The advocates of the policy of equal rights for all civilized men have been led to understand more sympathetically the difficulties of its application in an environment quite different from their own. Moreover, the existence of the colored and native voter in the Cape Province has had a potent influence on national politics throughout the Union. Low as are the qualifications for the franchise in that province, the number of colored and native voters actually on the rolls is not very great. The last registration showed a total of 36,853 non-European voters as against 156,884 Europeans, whereas the estimated population of that province in 1924 was 2,209,671 natives, Asiatics and colored, as against 680,053 Europeans. But, though the number of non-European voters is small, they can in a considerable number of constituencies, if they vote solidly, exercise, if not a decisive influence as

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between rival political parties, at any rate an influence which no party with an election in view can afford to neglect or alienate. A government, therefore, is bound to take into account, in considering measures affecting natives in any province, what effect they may have on the sympathies of the voters in the Cape.

The contact of the white man with the native in the industrial field goes back to the beginnings of our industries. As soon as the superior force of the white man had established peace and security in the country, the native turned his attention from war to labor. The Europeans were few in number, and, both from habit and the exigencies of the climate, were averse to manual labor. In the native they found a man of strong physique, docile to authority, whose material wants were few. The two fell as if by nature into the rôles of master and servant. Before the discovery of the diamond mines of Kimberley and the gold mines of the Witwatersrand, the demand for labor was but small, and those natives who came to work on the white man's farms were not subjected to any serious break with their ancestral conditions. But with the opening up of the mines, South Africa passed by a rapid transition from a primitive pastoral state to one of highly developed industry. Thousands of natives were required for the rough manual work of the mines and the industries which sprang up around them, and the lure of money and the luxuries which it could buy was a powerful attraction. From the employer's point of view the native had many advantages as a laborer. He was easily trained, had an ingrained respect for the authority of the white man, and he worked under indenture, breach of which was punishable by law. Above all he was cheap. Coming to work as he first did, and still to a great extent does, only as an interlude in his tribal life, he could be housed in barracks or compounds, and his requirements as to food and clothing were of the simplest. His wage, therefore, was far below what a white man, living under civilized conditions, could possibly accept.

It is on this basis — namely, that all the unskilled labor is performed by natives under the conditions described — that the mining industry of the country has been built up; and today the gold mines of the Witwatersrand employ over 180,000 of them. Other industries have adopted the same principle as far as they could.

Three results have recently forced themselves on public

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attention. One is that the supply of native labor is inadequate for all industrial requirements. Another is that the growing class of natives who cut themselves adrift from their tribal homes and settle with their families in towns and industrial centers give rise to very serious problems in regard to housing, because their wage is inadequate to enable them to provide for housing themselves under civilized and sanitary conditions. The other is that there has grown up among the Europeans a class of "poor whites," as they are called — men who are unfitted for any occupation but that of unskilled or manual labor, but who cannot get it in competition with the native at the wage which the native accepts. Outside the field of unskilled labor, also, the native is beginning to come into competition with the European, and here again his docility in the hands of the white employer, and the low wage which he is prepared to accept, give him advantages which tell heavily against the superior skill and intelligence of the European.

The writer has attempted to present a general view of the contacts, political and industrial, which have been and are being established in South Africa between the European and the native. Slowly but inevitably, under the pressure of the white man's civilization, the native is becoming conscious of himself as an element in the community. Tribal barriers are breaking down. He is learning to organize himself industrially and politically, to realize his importance and to lay claim to what he regards as his rights. We must now try to see on what lines the European's policy, both in politics and industry, is adapting itself to meet his claim. Again this can only be done in broad outline.

Underlying all the ideas of the European as to his relations with the native, is the fundamental proposition that South Africa is to be a "white man's country," if not in the sense that its inhabitants shall be in number predominantly white, at any rate that its destinies shall be guided by his race and along the lines of European civilization. For the practical politics of today this may be taken as an axiom universally accepted. There is not here, as there is in India, a rival civilization, rooted in the soil, with a vital spirit of its own. Here the European represents civilization as against barbarism. Based on this fundamental proposition there are three main lines of policy, each of which has its advocates, and all of which from time to time, alternately or together, have combined to influence public policy in South Africa.

Of these three lines of policy the first may generally be de-

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scribed as that of repression. This policy adopts as its guiding principle "no equality in church or state," or, "the native must be kept in his place." The native is an inferior being, to be treated with fairness and humanity, but never allowed to aspire beyond his inferior status. His labor is an "asset" to the country, but the laborer himself must not use it so as to establish for himself an independent status. It must be used by the white man in strict subordination to his own ends. Political rights are denied. Carried to its logical conclusion this policy refuses to recognize the native or the colored man as a full member of the community. It goes back for its idea to the institutions of slavery or serfdom. The man of the subject race is denied the principles of citizenship, restricted in regard to his place of residence and movements, and confined by law, as regards his labor, to a certain status inferior to, and designed to serve the purposes of, the dominant race. It is perhaps the view which, if one took a poll of the European community, would carry the largest number of votes. It is, tacitly or avowedly, the view of the ordinary run of men who do not think very deeply about public affairs. It was the avowed policy of the two northern provinces before they came into the Union, and still finds its chief support there.

Another line of policy may be described for want of a better term as the policy of assimilation. That policy bases itself on civilization, refuses to recognize any difference in status or privilege based on race or color, and proclaims equality in political rights and equal opportunity in industry for all civilized men. This policy, in theory at least, was the policy of the Cape Province before Union and it stands as the antithesis of the policy of repression.

The third line of policy, and one which has been much discussed since Union, is the policy of segregation. Applied absolutely this would mean a line of territorial separation between native and European, the division of the Union into two areas reserved for the European and the native respectively. In this extreme form, however, it has few adherents, and is generally admitted to be impossible. In a modified form it has been put forward recently by the Prime Minister of the Union as the line on which a national policy should be built. Certain areas would be definitely set apart as native areas, within which no European would be allowed to acquire land, and conversely natives would be prohibited from acquiring land outside these

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areas. Natives who came into European areas to work would be subject to restrictions as regards competing with the European in skilled or semi-skilled occupations. The natives would not be allowed to be registered on the ordinary voters' rolls, but by a sort of communal franchise they would be allowed to elect a limited number of European members to the elected House of the Legislature with specially restricted powers. Inside their areas they would choose councils who would exercise advisory powers in matters of local interest and might in time be entrusted with certain administrative functions.

None of these three seems to afford in itself a basis comprehensive enough for an adjustment which is likely to be permanent and adequate for the needs of both races.

The first breaks down in practice because it runs counter to some of the deepest and most enduring elements of human nature. The dominant race inevitably falls a victim to a fatal infection from the very inferiority to which it condemns its subjects, and in the long run loses even the physical and material force necessary to keep the lower race down.

For the other line of policy, which we have called that of assimilation, it is sometimes claimed that there is no halfway house between it and that of repression. It is advocated especially by missionaries, and those who seek to apply the principles of Christianity as the final test of the validity of public institutions and policies. Looked at from the point of view of practical statesmen, the policy cannot safely be adopted in South Africa if it involves a grave risk to the fundamental principle of European supremacy. The European population, as has been seen, is vastly outnumbered by the native, and behind the comparatively small number of civilized natives is the great mass which is now and will for long remain in or near its primitive state of barbarism. The white man in South Africa looks on the question as one of race against race. Assimilation in the full sense of the word, involving social intercourse and in particular race admixture, is abhorrent to his instincts. Whatever biologists may say about race admixture — and they do not all say the same thing — he will have none of it. The lapses of individuals in this respect only serve to throw into clearer relief the strength of the general sentiment. And behind this instinct is the fact, admitted even by the most thoroughgoing champions of equality, that for as far as we can see in the future the supremacy

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of the white man is essential to the maintenance of civilization itself. Assimilation, even in respect of political rights, would before very long gravely imperil that supremacy.

The policy of segregation even in its modified form does not seem to take adequate account of the actual facts of the case. The lands which are now allotted, or can possibly be allotted, for native reserves are not now adequate for the support of the native population, and we have yet to see what would happen if part of these lands through mineral discoveries or otherwise should offer strong attractions for development by the European. Large numbers of natives even now who still cling to their tribal homes can only subsist by coming out to work for the white man for longer or shorter periods. Many of them, as has been seen — and their number is increasing — have become permanently de-tribalized. We have made the native, for good or evil, part of our industrial organization. It was inevitable that it should be so. But it would be unjust to him, and fatal in the long run to ourselves, to decree that if he comes amongst us as a worker, as he must do both for his own needs and for ours, he shall be confined by law, no matter what his abilities or his civilization may be, to the status of an unskilled laborer.

The peculiar conditions of South Africa seem to call for a somewhat different policy, something between the second and third of those just mentioned. The native should be segregated to the extent of being encouraged to remain on his tribal lands, and he should be assisted by training in agriculture to make these lands sustain a larger population than they now do. But he cannot be segregated to the extent of being put away in a sort of watertight compartment. We are one country. There is room only for one civilization — the European — and no artificial barriers will keep the two elements permanently cut off from each other. The native who comes to work in our industries must not be under a legal ban which prohibits him from utilizing, to such advantage as he may, his capacity for work, skilled or unskilled. But the employer should be prevented by wage regulation from exploiting the low demands of the native to undercut the civilized wage rate. If the native is to compete with workers who have to live as civilized men in civilized surroundings, he must be paid a wage which will enable him to do the same. The true protection for the white worker is not the repression of the native but the raising of the native's standard of living to

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something like his own. In politics the native cannot be permanently excluded from a voice in the government of the country, but his participation in political rights, as he rises in education and civilization, must be so graduated as not to endanger the hegemony of the European civilization and direction. With this must go effective measures for reinforcing the European population by encouraging the immigration of people who will assimilate with its stock and make a permanent home here.

Whether under some such policy South Africa can work out a peaceful and permanent adjustment in the relations of her European and native peoples is a question for the far future. There is no "solution" or short cut in problems such as these. Today we do not know adequately many facts which have the most important bearing on the question. We do not know, for example, what the comparative rates of increase of the two populations are now, still less what they will be as the native comes more and more completely in contact with civilization and with industrial conditions. Yet on that fact alone depends the validity of any forecast of the future.

Such, in broad outline, is the problem which confronts South Africa in regard to the relations between her European and non-European peoples. It affects more or less directly almost every important question of her public life. It is a problem almost unique in difficulty — that of holding together as organic constituents of a single state under the institutions of popular government a complex of races so diverse in conditions and so divergent in outlook. On her success depends her own existence as the national home of a European people, and with that are bound up issues of the gravest importance for the whole African continent and for the relations of the white and colored races throughout the world.

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# BOLSHEVIK ROMANCE AND REALITY

*By Victor Chernov*

THE conflict within the Russian Communist Party has entered upon a new phase. For the first time all the groups of the Opposition have made an attempt to unite and to create a common platform. At the head of this Opposition bloc are nearly all of the most prominent names in the Bolshevik Party: Trotsky, Zinoviev, Kamenev, Radek, Sokolnikov, Shliapnikov, Kollontai, Piatakov, Preobrazhensky, Osinsky, and others. As against these names the party majority can set only those of Bukharin, Stalin, Rykov, and Tomsky. In addition, the Opposition has its unassuming rank and file, and not a few sympathizers who, like Lashevich and Belenky, form secret organizations, apparently acting on their own responsibility and risk. When such sympathizers are apprehended and brought before the highest party tribunals, they conduct themselves with just the same stubborn secretiveness as did the old-time Russian revolutionists before the Tsarist courts.

Only a few at a time did these leaders drop out of the ruling majority group and join the Opposition. At first, for instance, all of them, from Trotsky to Sokolnikov, together with the present leaders of the party, struggled against Shliapnikov and Kollontai; then all, from Zinoviev to Kamenev, unanimously agreed to have Trotsky removed from power and Radek disciplined; and, finally, the turn came for Zinoviev and Kamenev themselves to be cast from power. Hence, the leaders of the Opposition could not easily forget the bitter struggles within their own ranks and overcome feelings of antagonism and hostility toward each other; it was even more difficult to work out a definite program.

If we examine carefully the history of these defections, schisms, and desertions to the ranks of the Opposition, if we analyze one by one the factions of the Opposition, now united, we find that they can all be brought under one category. The Opposition personifies Bolshevik romance coming into conflict with everyday reality, and suffering thereby one defeat after another.

Stalin and his group are the realists of Bolshevism. They quietly accept the fact that "the flowers have faded and the fires have burned out" and that the time of planning on a gigantic scale has passed. They easily reconcile themselves to any incon-

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sistencies or contradictions which result from concessions to life. They are optimists in the sense that they see the bright rather than the shady side of everything attained by their policy. In short, they decided "to fit the foot to the boot," not to stake their all on the world social revolution, and to reconcile themselves to the fact that the stabilization of "*bourgeois* Europe" would compel them for a long time to come to settle down somehow within the encircling "jungle" of world capitalism and to seek means of mutual adaptation. Likewise within the country they seek means of adaptation to the "peasant jungle" which surrounds Soviet industry, and are now trying to create something in the nature of a network of peasant coöperatives, which might serve as a buffer between the "state socialism" (or to be more exact "state capitalism") of the Soviet trusts and the remnants of private capitalistic relationships.

Many observers are now fully convinced that the ruling group and the Opposition represent in embryo two different parties: the Stalin group is the future Nationalist-Bolshevik Party, which for a long time will remain confined within the shell of the present Soviet union, adapting itself in great degree to the agrarian character of the country. The Opposition is the International-Communist Party, subordinating all internal problems to the prospects of world revolution, and making the greatest efforts to approximate the evolution of Russia to that of the highly industrial world of Western Europe.

The Opposition clings tenaciously to the remnants of that Bolshevik romance which is contained in the original precepts evolved through pure reason by the dogmatic mind of Lenin.

From this point of view the ruling group and the Opposition represent the breaking-up of Leninism into its component elements. Lenin was the two-faced Janus of Bolshevism. On one side there showed the face of a fanatic, a cold theoretician and drafter of dogmas, a compiler of a catechism of social philosophy which tolerates no deviations — the face of an old-time religious sectarian, except that he took Marx's "Capital" for his Bible. The other side showed the face of a crafty practical politician, who gives little consideration to his own dogmas in his choice of tactics for the immediate present. In this respect Lenin represents a true national type. Such fanatics exercise a great hypnotic influence over the masses, and not infrequently use their hypnotism deliberately. Thus they are enabled to make their way in a

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labyrinth of complicated situations with the ease of shrewd practical men, who are ready to sanctify any and all means for the sake of the desired end.

Lenin's power consisted not in the depth of his theoretical understanding, not in his foresightedness and skillful predictions; his diagnoses and prognoses again and again fell flat. Capricious history continually set stumbling blocks in the way of their fulfillment. Lenin's power consisted, in the first place, in his will, developed to an unusual degree and thus easily dominating over other weaker characters; in the second place, and most important, in his skill and resourcefulness as a tactician. Lenin in his struggles disliked the careful planning out of tactics; he infected everybody with his readiness to try now one stratagem, now another, to retreat once and again, and at the same time to save energy for new attacks and faith in ultimate victory. With all this he was a thorough realist, unceremoniously thrusting aside any theories and principles which stood in the way, not excepting his own. And it was not always clear whether he created such theories and principles merely for the simpletons who could not get along without them, or whether he himself was fascinated by them — with that cold, purely mental fascination of a builder of systems, who is carried away by their harmony, symmetry and immensity of sweep. Lenin was not a romanticist by nature. He possessed an exaltation of a different kind; it was the exaltation of intense hatred, forged by the years of prison, exile, and life in hiding, and by the oppressions of a despotic autocracy. And it was this spirit which generated systems saturated with the romanticism of violence and retaliation, of "will and power" — that same spirit which the great romantic philosopher, Nietzsche, has defined as a longing "to put one's hand upon the centuries as upon a piece of soft wax."

Subsequent to the success of the October revolution the first and sharpest conflict between Bolshevik romance and its own inherent prose arose at the time of the infamous peace of Brest-Litovsk. Bolshevik romance insisted that the imperialist war was an "alien" war and should be unmasked; and the only way to unmask it was to transform it into a civil war. But that was not all. According to Lenin, out of the epoch of civil wars, superseding the imperialist war, a new world war must inevitably emerge, but with a complete regrouping of all forces. A revolutionary coalition

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of socialist states would engage in a "final, decisive battle" against a counter-revolutionary coalition, and this battle would decide the fate of the world, the fate of the proletariat, the fate of socialism and capitalism.

Such was Bolshevik romance. It demanded by radio-telegraph "an armistice on all fronts," calling upon the peoples to overthrow any governments which dared not to join in such an armistice. And, in particular, it threatened the Hohenzollerns and Hapsburgs with a "holy revolutionary war," if they should dare to take advantage of the peace-loving Russian proletariat. But they did not take fright, and did take advantage. It was at this juncture that the first great crisis of the Bolshevik party occurred.

Now Lenin the realist, with cynical frankness, simply threw overboard everything which Lenin the romanticist, the theoretician of the world "revolutionary war," had written so eloquently. He had to dash cold water on the ardor of the "Left-Communists," who had been inspired by his own former preaching, and among whom were to be found almost all of his most faithful and brilliant pupils and followers. Lenin astounded them with his preposterous demand that they submit to the yoke of the conqueror, that they lower the red flag before the sharp-pointed helmet of Prussian militarism.

Zinoviev has recently related what happened at the congress of the Comintern in session at the time of the Polish-Soviet war, when the Red Army was advancing on Warsaw. Each day the delegates, incapable of thinking about anything else, crowded about the large military map.They already dreamed of breaking their way through Poland to Germany, where they could give vent both to their feeling of revenge and to their revolutionary enthusiasm; and Trotsky already threatened to settle accounts with the Entente — on the banks of the Rhine.

And again the prose of life's realities mercilessly tore off one by one all the petals from the red flower of the romantic utopia. A new "little Brest" — the Riga peace treaty — definitely undermined the spirit which nourished the Opposition of the "Left Communists."

Nevertheless, the romance of a world-wide Red war lives even today in some minds. The Soviet Union is regarded as the advance-guard of all the "colonial nations" of the world, which sooner or later will lead these Asiatic peoples in their revolt against the "imperialist vultures;" but, having profited by ex-

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perience, Bolshevik diplomacy contents itself with merely inciting the step-children of history to rebellion, and cautiously retreats whenever conflicts threaten to drag it into a military adventure.

Romance in foreign policy was replaced by romance in domestic policy. Bolshevism, in order to insure victory in the civil war, had to fire the imagination of the masses, promising everything — bread to the peasants, land to the workers, immediate socialism with direct and wholesale confiscations, complete local autonomy, destruction of the former state machinery, the gradual withering away of the state, equal remuneration for service from the common laborer to the Soviet Commissar. However, this semi-anarchistic romance ended when reality again entered into its own. In the factories the strict system of one-man control was reëstablished; specialists, even the former owners, were attracted by high salaries, bonuses and premiums. It was declared that the epoch of confiscations and "local autonomy" was an epoch of "disorganized socialism" and that "organized socialism" should take its place. There arose a strict system of "military communism." All branches of industry were divided on paper into "departments," headed by the Supreme Council of National Economy. All commodities were to be nationalized, everything was to go into the "common pot." Money was not necessary in a socialist society. A unified economic plan topped the edifice. At its foundation lay the grandiose scheme of the electrification of the whole of Russia. As the age of steam was the age of capitalism, so the age of electricity was to be the age of socialism.

Such was the voice of romance. But reality spoke otherwise. In fact, there could be no thought of any kind of socialism. Surrounded by civil war on all sides, cut off from the grain-fields of the south, from the coal of the Donetz basin, from the oil of the Caucasus, from the ore of the Urals — Russia could hardly think about systematic production. The Bolshevik romanticists preferred to close their eyes to these stern realities of life's prose, adorning that prose with the rich colorings of romantic fantasies. They deceived themselves into imagining that they were practicing pure communism — only in an impoverished country which would quickly be transformed into a rich country.

But as soon as the civil war was liquidated on all fronts, unembellished reality necessarily entered into its own, and the

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romantic mirage was dispelled. Military communism had to collapse, and with it a multitude of illusions it had engendered.

The conflict in the Communist Party now entered upon a new phase. This occurred at the time of the famous "trade union discussion." The question about the trade unions was, of course, only an incidental one: the party was not yet fully aware that it was, in fact, quarrelling about the very foundations of military communism. And Lenin was again victorious, owing to dissensions in the ranks of the "Left-Communists," divided into four groups over the question of the share of the unions in directing industry.

Lenin had to compromise to some extent. He placed leading members of the Opposition in the central organs of the Party, but he demanded a high price for his concessions. At the same time, by intimidating the party with threats of danger from without, he succeeded in having all discussions and factions looked upon as a luxury which the party could not yet afford.

People often marvelled at the fact that it cost Lenin so little effort in March, 1921 — under the thunder of cannon of the Kronstadt revolt and under the dull rumbling of the general uprising of the Tambov peasantry — to turn his rudder sharply to the right and to steer at full speed from military communism to the "new economic policy." It was amazing to see how the whole party followed blindly after him and how weak and timid was the opposition. The fact had not been taken into account that the "trade-union discussion" itself had cleared the way for this unity. The cruel reality of life was a single force, while the means of escape from it in the clouds of romance were many.

During the period of the "new economic policy" the four important opposition groups finally fitted themselves into the framework of the Soviet system. The section of the party which stood for "iron Leninist unity" now had to face only the "workers' opposition." But this movement lacked a positive program to oppose to the opportunist "new economic policy," and so remained a turbulent expression of the discontent of proletarians cast down from the heights of romantic expectation into the depths of workaday reality.

The overthrow of Bolshevik romance by Bolshevik reality was complicated by the personal tragedy of the overstrained leader — the slow agony of waning mental powers. The tormenting period of befogged reasoning was broken by clear intervals when his brain continued feverishly to seek a way out of the blind-alley.

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He worked out some general conclusions, sketched only in rough outline, involving a complete revision of established views on socialism, an attempt to devise a new brand of "coöperative socialism," and the replacement of the old "industrial" formula, "the dictatorship of the proletariat plus electrification equals socialism" by a new "agrarian" formula, "the dictatorship of the proletariat plus coöperation equals socialism."

While the leader and uncrowned king of Bolshevism was dying a slow death, quarrels and dissensions abated, as if by the force of a tacit agreement. The "iron Leninist unity" of the party seemed to triumph over all misunderstandings or attempts to break it. This agreement, strengthened by vows of fidelity at his grave, held good for a long time. The memory of Lenin silenced criticism.

But the agreement was superficial. Bolshevik romance, suppressed as a political principle, took on an intensely personal aspect. The logic of dictatorship demanded that someone should occupy the vacant place.

Lenin had his brilliant second, Leon Trotsky, who had arrived at the same goal as he, though by another route; and there was his trio of close "adjutants" — Kamenev, Zinoviev and Stalin. Trotsky had long before worked out his own theory of revolutionary romance. It bore a high-sounding name — "the theory of permanent revolution."

This new concept which Trotsky had contrived appeared to reconcile various preceding theories. According to it, the Russian Revolution could not commence in any other way than in the form of a middle class revolution (here the Mensheviks are right). But in the development of events, the hegemony had to pass from the middle class to the proletariat, who also could take advantage of the revolutionary moods of the peasantry (here the Bolsheviks are right or almost right). This transition meant at the same time a broadening-out of the purely middle-class aims, tasks and potentialities of the revolution (here the Social Revolutionaries have the kernel of truth, though distorted). But the Russian Revolution was not merely a national revolution: having overthrown the stronghold of counter-revolution in Europe, the Russian autocracy, it was to be a signal for the outbreak of the proletarian revolution in western Europe. This revolution, in view of the economic preparedness of Europe for socialism, would also draw Russia into still more radical metamorphoses (thus are to be realized the prophecies of the Maximalists).

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Shortly after Lenin's death Trotsky tried to prove that the Bolshevik revolution in general was going "Trotsky's way," and that Bolshevism itself had become real, "Red October" Bolshevism only after it had departed from the old, typically Social-Democratic point of view of the middle-class revolution, and had displayed readiness to deepen the revolution steadily to its maximum potentialities. The first failure of Bolshevik Maximalism did not refute the theory since, at the very start, they failed to kindle the conflagration of revolution in the West, and hence could not avail themselves of the aid of that proletarian revolution to draw Russia into the course of socialism. The practical conclusion is clear: it is necessary again and again "to pierce with the Red Army bayonet the frame of European stabilization."

All the idealistic "Old Guard" of Bolshevism, like a disturbed ant-hill, became alarmed when they sensed towards what goal this Bolshevik neophyte, who only three years before was a Menshevik, was aspiring. His outspoken ambition to become the "ruling mind" of the whole party, his suspected ambition to play the rôle of a Red Soviet Bonaparte, his intrigues with the remnants of the former Left-Communist opposition — all this, taken together, united and armed the ruling circles against him. Trotsky fell into disgrace. The upper ranks of the Red Army were carefully purged of his supporters. He temporarily yielded, earned a half-pardon — and awaited the hour of his revenge.

In the meantime, the end of the "new economic policy," already extended beyond its original limits, had been reached. Only to the extent that it liberated the country from military communism was it possible to achieve any success in the industrial field, and only then could the spontaneous, organic "reconstruction process" begin. This reconstruction process did not apply to Russia alone but to the whole world, and its purpose was to heal the wounds inflicted by the World War and to regain the pre-war status with a minimum expenditure of time and energy.

The prospects of future success along the lines of industrial reconstruction were a powerful temptation to the leaders of the party to proceed further in the direction of an extended "newest new economic policy," of increasing production and the wealth of the country in every possible way. Was not the communist dictatorship strong enough to allow itself the luxury of making peace not only with the middle peasant but with the rich peasant? And

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Bukharin proclaimed throughout the land his impressionistic slogan: "Get rich."

All the forebodings of "Left Communism," all the bitter complaints of the "workers' opposition," all the sarcastic prophecies of the socialist anti-Bolsheviks were now confirmed in a manner so striking that even staunch veteran Bolsheviks became alarmed, and the split in the party penetrated to its very heart. Such pillars of communism as Kamenev and Zinoviev now began to talk about the degeneration of the party. The quiet "seizure" of power by one of the triumvirate, Stalin, who had virtually brought under his control the entire organizational apparatus of the party, was probably also responsible in great measure for opening the eyes of Zinoviev and Kamenev. These two apostles of the deceased Bolshevik Messiah hurriedly drew up the fundamental tenets of their program, designed to ward off the dangers threatening Bolshevism: no further extension of the "new economic policy;" close supervision of the private trader in the town and the rich peasant in the village; serious attempts to make real the workers' dream of equal wages and so check the spreading spirit of disillusionment.

The New Opposition maintained that the chief stronghold remaining in the hands of the proletarian dictatorship — state industry — must be regarded, not as socialist industry but as closely bordering on "state capitalism." It was also the firm belief of this Opposition that out of state capitalism, at an unfavorable turn of political events, ordinary private capitalism might easily emerge before the workers would even have time to be aware of it. In view of such a threatening danger from the right, the slogans of the Opposition were: amnesty for all members of the former Left Opposition, freedom of discussion, democracy within the party!

At this juncture it became clear in what a firm grip merciless Bolshevik reality held the party. The leaders of yesterday were dethroned and their followers discredited. An unconditional veto was placed upon the further preaching of their "criminal ideas."

The entry of Kamenev and Zinoviev into the ranks of the Opposition marked a turning-point in its history. Thenceforth the Opposition would try to form a bloc with a unified program.

So here was the "New Opposition" against the "new economic policy." But in the name of what positive political program?

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Until recently this had seemed an enigma. Little by little it has been cleared up. And now, if we closely examine the disconnected fragments of the ideas of the Opposition which reach us through the crooked mirror of the official press, the platform of the united Opposition appears entirely comprehensible in all its fundamental measures. It may be divided into four sections:

Industry, as the more complex and delicate mechanism, suffered most of all from the destruction of the World War and the chaos of civil wars. Peasant economy more quickly responded to the restorative process. Since this disproportion is unfavorable for the proletarian dictatorship, a sharp turn in the direction of the industrialization of the country is made necessary. It is likewise important that the wages of workers should be increased. Also, the "private trader" — a new threatening force undermining the foundations of Communism — must be continuously clipped close — but without killing him, so that he may be sheared again. Further, the state economic agencies are constantly "fraternizing" with private traders, and must be thoroughly reformed.

The peasantry constitutes a petty *bourgeois* element. A more conciliatory attitude towards the peasantry than towards the private trader is a question of political tactics; in an economic sense, it is as necessary to suppress the one as the other. Hence, there must be a systematic draining of resources from the peasantry into state industry: higher prices for manufactured goods, and higher taxes. Among the peasants class differentiation is growing to an alarming extent: the "middle peasant" is disappearing, thereby augmenting the ranks of both the poor and the rich peasants. Since the latter represent a rapacious element, of little value to industry, their expropriation appears desirable.

The present Soviet power is "far from proletarian in character" (Trotsky). It has already acquired mixed, compromising, "worker-peasant" tendencies. "Specialists" are gradually penetrating into the highest government agencies, and the most responsible Communists are exposed to their influence. Suffrage restrictions of the propertied classes are gradually being revoked or remain a dead letter; the proportion of Communists elected to the village Soviets has greatly diminished; the poor peasantry has in part used its power for "economic advancement" and become

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*bourgeois*. It is necessary to restrict further the voting rights of the propertied classes, to pass more rigorous election laws; and in the village, to return, in general, to a régime of the political dictatorship of the poor peasantry.

This already constitutes quite a consistent program. It is saturated through and through with a spirit of "peasant-phobia." Stalin's program is much more realistic and shows greater understanding of the peasant nature; it is much better adapted to life, carefully and opportunistically balancing between the tendency towards industrialization and the difficulties with which its realization is accompanied.

There remains to be examined the fourth section of the Opposition platform: Problems of Inner-Party Life. Here the Opposition itself is very much divided, having a great variety of solutions to offer.

Zinoviev proffered his solution even before he was outlawed into the ranks of the Opposition: the creation of a safety-valve in the form of a group of "honest non-partisans," *i.e.*, non-communists in full accord with the Soviet power. Sokolnikov alone had the courage to propose that the Mensheviks and Social Revolutionaries be recognized; but had his suggestion not been made in strict confidence, it would have aroused a terrific storm. Ossovsky reiterated Sokolnikov's proposal, with modifications to the effect that these parties might be induced to change their names and take an oath of allegiance to the Soviet Government and that undesirable leaders might be sifted out and only harmless ones left. In a word, there could be manufactured "substitute" Mensheviks and Social Revolutionaries. The answer to this plan of Ossovsky was his expulsion from the party.

All the possibilities of finding a safety-valve outside of the party were exhausted. Then Trotsky renewed his old demand that a safety-valve within the party be opened, that there be complete democracy within the party, freedom of groupings into factions, and permanent freedom of discussion.

But if factional freedom was considered dangerous even at a time when the Opposition was divided into many groups, legalization of factions, now that the Opposition formed a unified bloc, would mean a fatal split in the party, would be identical to placing two political parties under one roof. Factions of yesterday might easily become independent parties today or tomorrow.

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But the essence of the Bolshevik party dictatorship consists in strict parallelism of the Soviet rule with the party method of control, a parallelism by which the execution of party decrees and instructions by the Soviet institutions takes place with maximum celerity and accuracy.

A split in the party would mean a split in the Soviet rule, *i.e.*, the death of the dictatorship. Under a democracy parties can replace each other painlessly, without any conflict. But under a dictatorship a split in the dictating party means the sending of the Dantons to the galleys by the Robespierres.

So there is no solution. The party is suffocating in its own political monopoly. There is no breathing-hole, either outside the party limits or within them. Such is the logic of dictatorship. Its existence is no longer justified either by an external enemy, or civil war, or intervention, or blockade. There is no possibility of its setting out upon an external military adventure, which would enrich the dictatorship with a new "real meaning." And at home it is not a period of great tasks for the Bolsheviks: instead of innovations on a world-wide scale — stabilization and minute every-day work; instead of great deeds — petty details.

And as for the conflict between the former romance and the present reality of Bolshevism, it is making itself evident every day, every moment. Recently, according to Lomov's report, the Communist Party in Moscow conducted an inquiry as to the conditions of labor of workers in private enterprises as compared with those of workers in state enterprises. The results were astounding. Everywhere the conditions of labor in private enterprises were significantly more favorable for the workers. Thus in the Rogozhsko-Simonovsky region the wages of textile workers were 26 percent higher, of chemical workers 28 percent, and of metal workers 37 percent; in the Baumanovski region the wages in private establishments everywhere exceeded the pre-war level and, of course, were higher than in state enterprises — the excess in individual cases amounting to 40 to 50 percent. According to the data of the All-Russian Central Soviet of Trade Unions, this phenomenon is general: as early as 1924, the wages in private enterprises exceeded those in state enterprises by 25 percent (leather workers), by 37 percent (needle-trade workers), by 41 percent (wood-workers), by 47 percent (cotton workers), and on the average by 30 percent.

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Moreover, in state enterprises the percentage of Communist workers fluctuates from 15 to 19, while in private establishments it falls to from 3 to 5 percent. Cases are not rare in which this "statistical propaganda" results in the workers "considering that their exploitation by capitalists is entirely normal and that it is the greatest misfortune to be a worker in a state enterprise." And since in Moscow for every ten workers there is at least one working in a private establishment (12 to 13 percent of all the workers of Moscow), the truth will out.

Imagine the position of a Communist who must prove to the workers that they should strike when employed by a private enterprise, where conditions are better, but should not strike when employed by a state trust, where conditions are worse, and further that they should desire the annihilation of private enterprises and their replacement by state trusts.

Perhaps under these circumstances Stalin is entirely correct from his point of view in considering it necessary to put down energetically all waverings, quarrels, disagreements, and differences of opinion within the party. By so doing, however, the party is inflicting the severest punishment on itself.

The more a disease is driven within, the more virulent it becomes, and from time to time infallibly forces its way to the surface. Such eruptions in the party, by their unexpectedness and vehemence, literally overwhelm the ordinary worker who can not comprehend what is going on behind the scenes of the Soviet power. And worst of all he is compelled — in the short space of time allotted for discussion prior to the ensuing conference or congress called to settle all disputes — to straighten everything out in his mind and give his vote, in order that again an end be put to all differences of opinion and that the new undisputed truth of the ruling group be left undisturbed. It is natural that this helpless worker — deafened by the uproar of the leaders' mutual accusations — should only be bewildered by all these discussions and deliver his vote into the hands of the party bureaucracy, the all-powerful political machine.

The Opposition is the irrepressible conscience of Communism; the ruling group its practical reasoning power. The Opposition represents the theoretical romance of Bolshevism. The political machine is the living incarnation of triumphant reality. The Opposition rebels; but the ruling group, poised and self-confident, reigns supreme. All the most talented leaders of Bolshevism may

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go over to the Opposition, but the collective mediocrity of the "machine" will master them and break down their resistance in the future as in the past.

Both the Opposition and the ruling group have each their own historical mission. The ruling party bureaucracy with its leanings away from romance towards reality, impelled by experience and the pressure of actual conditions, makes use of romance only as camouflage. The Opposition does not allow the ruling group to label these tendencies as an adequate incarnation of the prescribed theories of communism, and mercilessly lays bare their undoubted opportunism and lack of principle. Which group is more useful for Russia? Both. Only by their united efforts can they nourish the Bolshevik crisis — a crisis which will result not in growth but in decomposition, due to failure to pass the acid test of life.

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# RAILWAYS AND REVOLUTIONS IN MEXICO

*By Alexander V. Dye*

ALL Mexican problems are closely connected with the question of transportation. If a revolution breaks out, the first act of the revolutionists is to cut the railway line so that this superior means of pursuit cannot be used when they mount their horses and flee after raiding some small village. If a new mine or oil well is discovered, the first question asked is, "How far is it from transportation?" Mexico is a vast, thinly settled country, with great extremes of climate, soil, and topography, ranging from the wide arid deserts and mountains of the north, where minerals are the only thing of value, to the densely wooded flats along the sluggish rivers of the tropical zone. Under these conditions the necessity for adequate systems of transportation was early foreseen and railroad building which began in 1842 proceeded rather steadily up to 1910, when was ushered in the period of revolutions.

If we glance at the railway map of Mexico we see a network of railways connecting the different sections of the thickly settled central plateau. Long, spidery arms reach up into the thinly settled arid deserts of the north and down into the equally thinly settled but over-watered tropical lowlands of the south. It is perhaps significant that revolutions have never broken out in the thickly settled central part where communication is easy, but have always come either from the far-distant north in Sonora or Chihuahua, or the southern reaches of Oaxaca and Chiapas. General Porfirio Diaz, who led the revolution which gave him control of the country for over thirty years, came from Oaxaca. All the later revolutions have come out of the north. Whether for good or ill, the lack of communications favors revolutions and the development of transportation systems tends toward stability.

In spite of this, however, railway building in Mexico has always been projected and carried out from the view-point of commercial and economic development rather than for military purposes. The reason is that all the railways of Mexico have been planned by foreign capitalists. Their engineers were interested in opening up new territory and increasing production, and in carrying inbound and outbound commerce with foreign countries more cheaply for the trading public at the same time that they made dividends for their stockholders.

The first railway in Mexico was built to connect the thickly-settled central plateau with Vera Cruz, the main port of communication with the outer world. The next two lines were those long arms running up to the border at Laredo and El Paso, to connect with the United States. They really were part of that great railway building movement which between 1870 and 1890 threw a network of railways over the middle-western part of the United States and reached across to the distant Pacific. Also in connection with this movement, American railway interests projected a line down the west coast of Mexico which should form a connecting link between the west coast of the United States and the populated center of Mexico. This third arm has not yet been pushed through,

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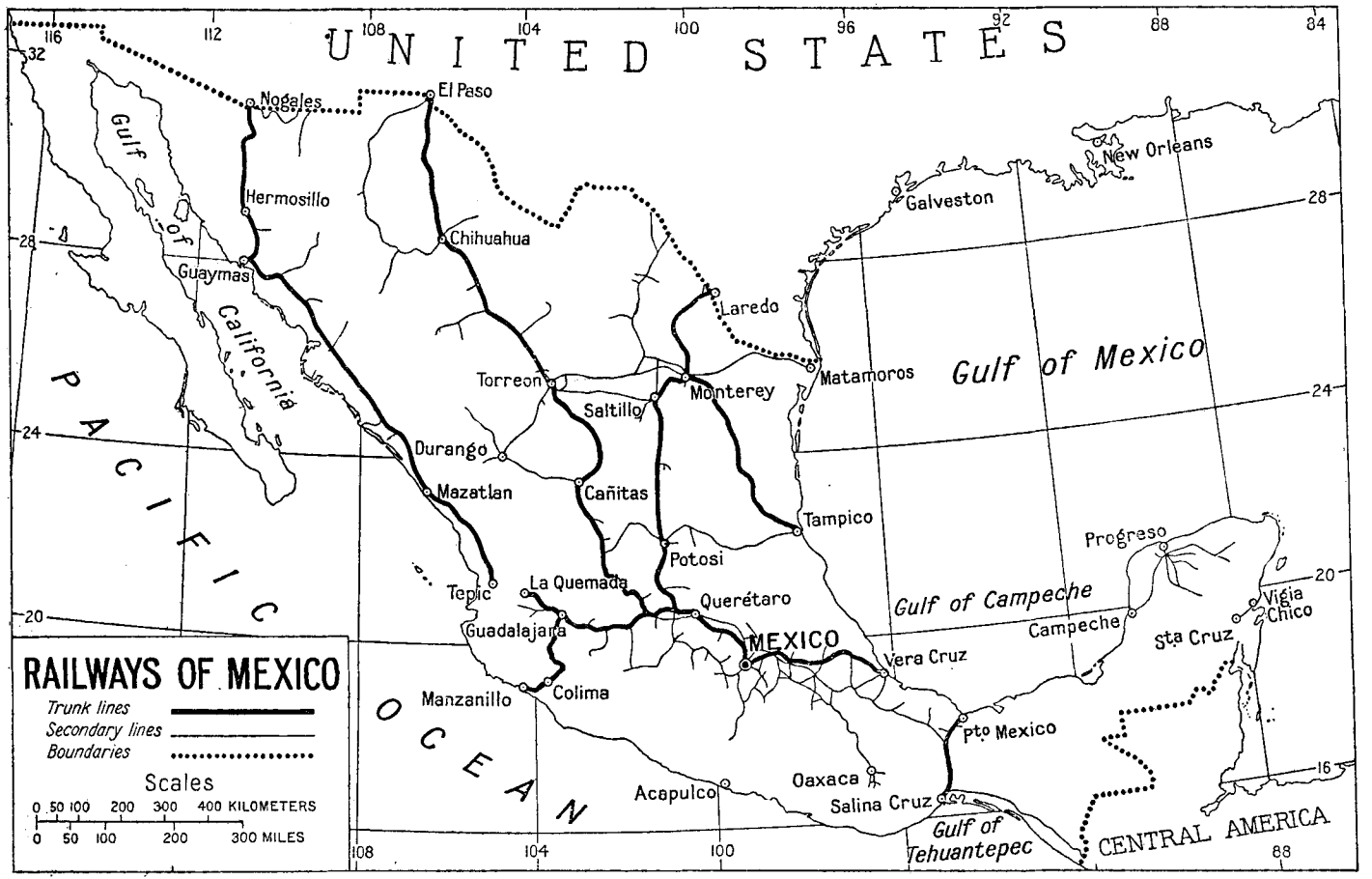


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but lacks only forty or fifty miles — the section between Tepic and La Quemada. This section presents construction difficulties, but it will probably be finished up early in 1927.

Fifteen years of political turmoil have shown that these long lines of railway through sparsely-settled country are very vulnerable to incipient revolutions. It is so easy to burn a bridge, cut the wires, mount and scamper away. Nevertheless, the central government finds railways much better than nothing; the only possible method of pursuit is to send troops to the point in question, repair the bridge and start from there after the marauders. The latest revolt has broken out among the Yaqui Indians in Sonora, the one section of the country which has no railway communication with the center. Troops must be brought by sea via Manzanillo, sent overland through the mountains, or, as has been done at times in the past, sent by permission through the United States. The need of railway development from a military as well as an economic standpoint is obvious to the Mexican Government.

But this is not all. With the increasing use of the automobile in Mexico, its enormous development in the United States, and the fact that highways are not so vulnerable as railways to attacks by small forces, it has become obvious that the automobile highway can supplement the railway to advantage. The Mexican Government has therefore embarked on a highway building program which will not only contribute to the economic welfare of Mexico but will also supplement the railways as a stabilizing force in the political sense. This program has begun with work on a main north and south highway, from Laredo to Mexico City and from there southward to the Guatemalan boundary; in addition a lateral highway is to reach down to the Pacific coast from Mexico City. Other routes are contemplated, but so far efforts have been concentrated on these primary lines and expenditures have been made during the past year at the rate of about $500,000 per month.

With the development of these railways and highways, revolutions should become more difficult to organize and economic and political stability should be easier to maintain.

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# ABYSSINIA AND THE POWERS

THE Abyssinian representatives in Geneva had proclaimed their intention of making a formal speech of protest at the autumn session of the Assembly of the League of Nations against the recent Anglo-Italian agreement which, despite reassuring statements in London, was regarded in many quarters — particularly in Paris — as a prelude to the division of Abyssinia into spheres of economic interest between Great Britain and Italy. London and Rome at the last moment induced Abyssinia to adopt a different course.

The Empire of Abyssinia — or, as it is now officially styled, Ethiopia — has an area of about 350,000 square miles and a population of something like 10,000,000. Of these only about 3,500,000 belong to the Abyssinian ruling race. The rest are of Galla or other Hamitic stock or, in the conquered equatorial regions, are negroes. Though the Abyssinians proper are one of the oldest of Christian nations, at least half the total population are Mohammedans: indeed, a few years ago, after the death of the late King Menelek, it looked as if the Mohammedans might get the upper hand.

The fact that the country is highly mountainous was Abyssinia's protection during the many centuries in which it was lost to the European world and was threatened from all sides by hostile Mohammedan neighbors. In the nineteenth century, it first came into general view with the English punitive expedition against King Theodore in 1868, who after generations of confusion united the scattered tribes once more into something like a real state but who by his ill treatment of foreigners in the country provoked English intervention. After his overthrow the English retired, but later in the century all the natural seacoast of Abyssinia was taken over from Egypt or otherwise occupied by England, Italy and France; since that time these have been the three states most interested in Abyssinian affairs. In 1889 a treaty was signed between Italy and King Menelek which seemed to put Abyssinia under an Italian protectorate. Menelek, however, denied this, and in the war that finally ensued the Italians after being defeated at the battle of Adua in 1896 gave up their claims and signed a treaty of peace. The boundaries of Abyssinia were settled by a number of conventions with the neighbors. In the one with England in 1902 it was agreed that no obstruction should be placed in Lake Tana or the Blue Nile to the outflow of water necessary for the irrigation of the Sudan and of Egypt. The chief interest of France has come from the fact that the French own the port of Jibuti, the best on the coast, and the railway from there to Addis Ababa, the present capital of the country.

By an agreement signed in 1906 Great Britain, France and Italy undertook to respect and to endeavor to preserve the integrity of Abyssinia and to act in such a manner that industrial concessions granted in the interest of one of them should not injure the others. They also agreed to abstain from intervention in Abyssinian internal affairs and in general to concert together in Abyssinian questions, as well as to guarantee equal treatment in trade and transit for their nationals. In some respects this treaty reminds one of the Anglo-French Convention of 1904 in regard to Siam and the Anglo-Russian Convention of 1907 in regard to Persia, in both of which cases the countries were

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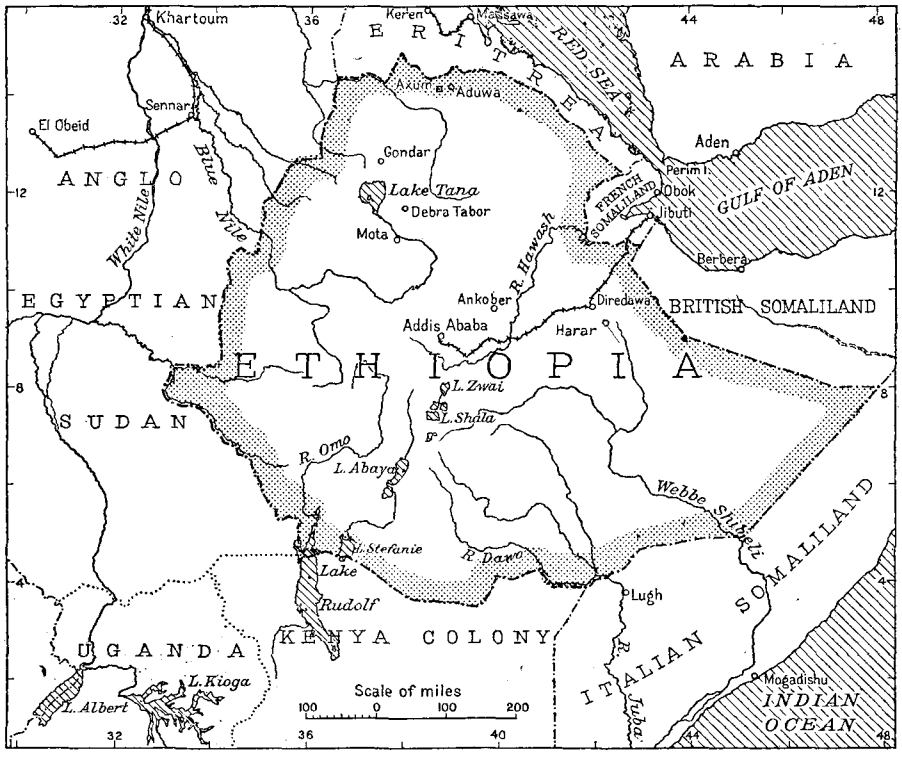
divided into spheres of influence for the treaty powers. To the outside world this seemed only a first step towards ultimate partition. But the partition has never taken place, and in the case of Abyssinia there was no such sharp delimitation of spheres, though there was a recognition of English interests in regard to the region of Lake Tana and the Nile, of Italian in the western region which has Italian territory to the north and south of it, and of French in the vicinity of the railway. Another object of the treaty undoubtedly was to keep the Germans out.




In December, 1925, notes were exchanged between the British and Italian Governments by which it was provided that Italy would support an English request to the Abyssinian Government for a concession to construct a barrage at Lake Tana together with a right to build and maintain a motor road from the Sudan frontier to the barrage. In return the British Government was to support an Italian application for the concession of a railway across Abyssinia which should connect the Italian territories north and south of the country. England would also be willing "to recognize an exclusive Italian economic influence in the west of Abyssinia," and would promise to support all Italian requests for economic concessions in that zone. Such recognition and undertakings would be, however, subject to the proviso that the Italian Government, "recognizing the prior hydraulic rights of Egypt and the Sudan" would engage not to construct on the headwaters of the Blue or White Niles, or their tribu-

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taries or affluents, "any works which might sensibly modify their flow into the main river."

This looked a good deal like a division of Abyssinia into spheres of influence, and without consultation with France. At any rate, the French asked for explanations, and also — it is asserted in Italy — stirred up the Abyssinians to protest. This the latter did in a note dated June 19, 1926, addressed to states members of the League of Nations, accompanied by a covering letter to the Secretary-General. As a consequence, the Italian press attacked the French with much acrimony. The British Government found it necessary in answer to questions in Parliament to give assurances that the Abyssinian complaints were quite ill founded, that both Italy and England had acted in the friendliest spirit, merely undertaking not to get in each other's way, and that they had no intentions against the independence or integrity of Abyssinia. At the meeting of the League of Nations, in September, there was considerable curiosity as to whether Abyssinia might not make a formal protest in the Assembly, thus placing England and Italy in an uncomfortable position.

Instead, the Regent of Abyssinia merely addressed to the Secretary-General a letter, dated September 4, in which he recalled to mind the protest formulated by his government in June, and the subsequent efforts of Great Britain and Italy to make plain their purely friendly intentions. The two Powers, continued the Regent, had announced that they intended to deposit with the League Secretariat the two notes which they had interchanged on the subject of Abyssinia, and to this the Abyssinian Government had no objection, as the step was merely designed to give publicity to their protestations of friendship and did not infringe Abyssinia's sovereignty. However, the Regent felt bound to request that his letter be registered and published by the League, together with the British and Italian notes in question, so that all the members of the League might know that, far from having given any undertaking in the matter, the Abyssinian Government retained full and complete freedom to decide as to any political or economic request that might be made to it. In acknowledging receipt of this letter on October 11, the Secretary-General expressed regret that as it was a unilateral declaration it could not be regarded as an international engagement and registered in the treaty series, but that he would make a suitable reference to it in the treaty series at the end of the notes exchanged between London and Rome.

While the record was thus being put straight, the interested parties were settling details by private negotiation. England and Italy appear to have obtained their concessions in the matter of the barrage and the railway in return for a considerable foreign loan. France also has had to profess herself satisfied. But though relegated to the background, the incident is probably not yet entirely closed.

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# MALAYA AND THE PHILIPPINES: COLONIAL CONTRASTS

*By Ralston Hayden*

THE NETHERLANDS, the United States, and Great Britain are today the rulers of that widespread section of the human race known as the Malays. The Dutch exercise sovereignty over the great and sparsely settled island of Sumatra, crowded Java and Madura, and most of the myriad isles which dot the Pacific west to New Guinea and north and west to the Philippines. They share with Britain the possession of Borneo, which is fifteen times as large as Holland itself. The 48,000,000 inhabitants of their island empire, Insulinde they call it, are subjects of Queen Whilhelmina. The Philippine Archipelago, stretching a thousand miles northward from Borneo and embracing a land area as great as that of England, is a dependency of the United States. Its 11,500,000 inhabitants are "nationals", although not citizens, of this country. Great Britain directly or indirectly rules the southern portion of the Malay Peninsula, now generally denominated British Malaya. Most of the 3,350,000 people there under her sway owe allegiance not to George V but to Malay sultans whose thrones and lineage are, in some instances, more ancient than those of any reigning sovereign in Europe.

Not all the inhabitants of the Malay peninsula and of the islands which fringe southeast Asia are Malays. They are predominantly so, however, and this tropical sea-encompassed world of pepper, pearls, spices, coffee, copra, sugar, and now of rubber, is characteristically the Malay world. The story of its government by three Occidental nations offers many parallels and contrasts of significance to all countries which possess colonial dependencies or which are affected by the increasing contact of the East and the West. British rule in Malaya is of especial interest to Americans, whose attention has recently been directed thither rather sharply by Britain's dominance over the world's supply of crude rubber through her control of the Malay Peninsula, and by the investigation of conditions in the Philippines made by Col. Carmi Thompson as the personal representative of President Coolidge.

That part of the Malay peninsula which is under British rule or influence has an area of 52,500 square miles. It is thus about equal in size to peninsular Florida, which it somewhat resembles in configuration. A through railway from Singapore to Bangkok connects it with Siam, to the north, while most of the great ocean highways of the Orient focus at Singapore, its southern tip.

The traveler who is familiar with the Philippines is sharply impressed by two features of British rule in the Malay peninsula. He realizes at once that the manual labor behind the marvelous development which is going on there is not furnished by native Malays. Everywhere he sees the strange, tall, ebony-black, narrow faced Tamil, or Kling, as he is locally called. Clad only in dirty loin cloth and billowy turban, this Dravidian from southeast India is cleaning the streets, clearing the jungle, building the roads and railways, driving the creaking bullock carts, planting and caring for the rubber estates. An outcaste in his native India, the Tamil is not an attractive person to Europeans, or even to Malays. Yet on the whole he is considered a good worker, as coolie labor goes;

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and between 1911 and 1921, the great period of rubber development, his numbers in British Malaya increased from 267,000 to 472,000.

Even more numerous and important than the picturesque Tamils are the Chinese. For more than five hundred years they have been coming to the peninsula, and from the middle of the nineteenth century they have been pouring in, drawn first by tin and more recently by rubber. Most of them come from the southern maritime provinces of Canton and Fukien and the island of Hainan. Until recently practically all of them returned to China as soon as they had acquired a competence. Within the past twenty years, however, famine and disturbed conditions in South China have greatly increased the number of female immigrants, and in 1921 there were enumerated 258,523 locally born Chinese as against 916,254 born in China or elsewhere.

Dr. R. O. Winstedt, of the Malayan Civil Service, one of the foremost authorities on the affairs of the Malay States, makes the following estimate of the Chinese elements in their population: "The Chinese are pre-eminently the business people of the peninsula. The coolie is cheerful, industrious, frugal and law-abiding; the shopkeeper honest and enterprising; the miner and planter shrewd, loath to let money rust, hospitable, generous, public-spirited. Chinese own most of the tin mines, many rubber estates both large and small, coastal steamers, and house property in every town and village. Without the energy and brains of the Chinese population British Malaya would not have become what it is today." Between 1911 and 1921 the Chinese population of the peninsula increased from 916,000 to 1,173,000.

The indispensable part that the Chinese and the Tamils, together with the British, have played in the development of British Malaya should furnish food for thought to the people of the Philippines and to Americans who are interested in the future of the philippine Archipelago. The transformation of the peninsula from one of the most backward to one of the most advanced portions of the Orient has proceeded along economic as well as political and social lines, and today it rests on a solid economic foundation. This foundation, however, has been laid for the most part by British enterprise and capital, Chinese enterprise and labor, and Tamil labor. Of enterprise, capital, or labor the native Malays have furnished relatively a very small proportion. No one acquainted with the facts for a moment supposes that the Malay alone, or even the British and the Malay together, could have turned the trick. Immigrant laborers almost equal in number to the native population were necessary.

With reference to the development of natural resources the situation in the Philippines is in many respects similar to that in the Malay peninsula. In proportion to the undeveloped natural resources of the archipelago native labor is scarcely more abundant than in the former country; Filipino capital is entirely inadequate to the development of the Islands; and the Filipinos have never played a dominant, or even the leading part in directing the economic life of their country. For the past quarter-century, chiefly out of deference to the wishes of the Filipinos themselves, Asiatic labor has been excluded from the Islands, while the land laws and the uncertain political future have prevented American or other foreign capital from entering. Many Filipino leaders, however, are now beginning to realize that the present policy will never provide a national purse long enough to pay for the civilization and to support the in-

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dependence which they covet. They are beginning to face the facts that the most pressing problems of their country are economic, not political, and that while they have escaped certain dangers by the exclusion of foreign capital and labor, they have missed certain benefits well illustrated in British Malaya.

A question which at once arises in connection with the presence of the Chinese and the Tamils in Malaya is how it has affected the lot of the native himself. The broadest general answer may be given by stating that between 1911 and 1921 the Malay population increased by 15 percent, in which growth immigration played small part. Materially and socially there can be no doubt that the condition of the Malay has been immeasurably improved during the past generation, and that to a large extent this improvement has been due to the general increase in the prosperity of his country. The typical Malay agriculturist is a rice planter or the owner of a small holding upon which he grows fruit, cocoanuts, and rubber. He may also be an artisan or a fisherman. In any event his market is more extended, more certain, more advantageous in every way than it was twenty years ago. But it cannot be said that the Malays relish the influx of other Asiatics, especially of the Chinese. The Chinese can, and do, out-smart, out-work, and underlive every other Oriental people from Siberia to India, not excepting the Japanese. These may be admirable qualities, but they do not make for popularity in Malaya any more than they do in California. In point of fact, the Chinese are not popular with the natives of any Malay country, and in certain parts of British Malaya, as in the Philippines, native feeling against them is not infrequently expressed by looting, the burning of goods and houses, and other manifestations of dislike.

The second striking impression which an American from the Philippines receives in British Malaya is that, so far as the apparatus of modern life is concerned, the British are building more elaborately and more permanently than are the Americans, especially in those parts of the country which are distant from the metropolis. As the seventh port in the world, one expects Singapore to be a modern city. But when the visitor travels some twelve hours over an excellently equipped railroad to Kuala Lumpur, the capital of Selangor and of the Federated States, he is somewhat surprised to find a municipality just as clean, modern, and well equipped. Beautiful parks and boulevards, sixty miles of perfect city streets, handsome stone buildings, a first class hotel, important banks, well stocked shops, a truly wonderful museum, three large hospitals, several churches, and a gem of a mosque, golf courses, grounds for various sports, clubs, and many schools make this inland town one of the most attractive capitals in the Orient. It is hard to believe that fifty years ago it was a Chinese mining town, with two streets and houses built of adobe and thatched with palm leaves.

Other provincial towns exhibit the same characteristics. In sharp contrast with American practice in the Philippines, the British civil experts who administer the technical and some of the political services of the government are provided with permanently constructed, well placed and perfectly maintained residences which are allotted in accordance with rank just as are the quarters of an army post. The same conditions obtain in the Dutch Indies. These contrasting practices reflect the differing policies of the ruling powers in the Philippines, and in the Malay peninsula and Insulinde. Britain and Holland

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are in their colonies to stay, and plan accordingly. America has promised to leave, if the Filipinos wish her to, as soon as the natives can maintain an independent republican government; and she plans accordingly.

British rule in Malaya goes back to 1786 when Francis Light obtained a grant of the island of Penang from a native sultan in return for a promise of protection from his rapacious neighbors. In 1800 a small coastal cession on the adjoining mainland, now Province Wellesley, was purchased for $4,000. After a generation of military, commercial, and diplomatic rivalry with the Dutch, Great Britain secured permanent title to Malacca in 1824. Meanwhile, however, in 1819 an adventurous and far-sighted young Englishman, Stamford Raffles, had hoisted the Union Jack over the Island of Singapore and founded there a trading settlement which soon surpassed in importance the ancient Dutch factory on the Straits. These colonies, together with certain islands and a small coastal strip connected with them administratively, comprise the Straits Settlements.

For almost a century after the founding of Georgetown the British limited their relations with their Malay neighbors to occasional treaties entered into primarily in order to advance their commercial interests and to guarantee the peace and security of the Straits Settlements. With the influx of Chinese tin miners after the middle of the 19th Century, however, the native chiefs became less and less able to maintain order. Finally, in 1874, to save the native states from chaos and ruin and their own commerce from serious injury, the British inaugurated a policy which eventually made them the masters of the entire peninsula. They compelled the Perak chiefs to sign a treaty accepting a British Resident whose advice should be, "asked and acted upon on all questions other than those touching Malay religion and custom." The treaty provided that the collection and control of revenues and the general administration should be regulated on the advice of the Resident and the Assistant-Resident.

Between the acceptance of Residents by Perak and Selangor and the year 1895, the nine petty sultanates which now comprise Negri Sembilan were first confederated and then united under a Malay ruler with a British Resident at his elbow. Sir Hugh Clifford induced Pahang to enter into a similar status in 1887. In each case the relations between Great Britain and the native state were fixed by treaty, the agreement being secured and enforced by a combination of diplomacy and force.

The four states which have been mentioned were organized as a federation in 1895 and are known as the Federated Malay States. The government now consists of the High Commissioner (who is also the Governor of the Straits Settlements); the Chief Secretary to Government, who is the head of the administration at Kuala Lumpur; and a Federal Council consisting of these two officials, the rulers of the four states, the four British Residents, the Legal Adviser, the Financial Adviser, and six unofficial members nominated by the High Commissioner with the approval of the King. In 1909 Siam relinquished her last claim to sovereignty over any part of the peninsula which had come under British control, and all of the States passed under British protection.

Upon the legal foundations which have been described the British have built up a wonderfully efficient and smooth-running administrative machine. The Chief Secretary at Kuala Lumpur is assisted by the heads of the federal

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departments, each staffed in its upper ranges by British civil servants. They are adequately paid, enjoy a permanent status and good living conditions, and upon retirement receive fairly generous pensions. The executive authority in each state is vested in a Resident, who is assisted by a secretariat somewhat like that of the central government, and by district officers and magistrates. Many Malays have become assistant district officers and a few have risen higher.

The East and the West have come into contact with less of conflict and more of mutual satisfaction in British Malaya than in any other area east of Constantinople. In justification of having added 15,000 square miles of Malayan territory to the British Empire, "at a preposterously early age," Sir Hugh Clifford, one of the men who laid the foundations of the present system, wrote: "I have watched at close quarters, and in intolerable impotency to aid or save, the lives which all these people lived before the white man came to defend their weakness against the oppression and the wrong wrought to them by tyrants of their own race; and I have seen them gradually emerge from the dark shadow in which their days were passed, into the daylight of a personal freedom such as white men prize above most mundane things."

As to self-government, this veteran administrator who was "passionately determined" to end the oppression under which these people lived, declared: "The Malays, be it remembered, never possessed 'self-government.' The rule of their rajas and chiefs was one of the most absolute and cynical autocracies that the mind of man has conceived; and the people living under it were mercilessly exploited, and possessed no rights, either of person or property."

No better justification has ever been offered for "imperialism", in the best sense of that word of many meanings. Today in British Malaya "Democracy" means nothing to the masses because it is not indigenous and has never been introduced by foreigners. Popular sovereignty, universal suffrage, representative government, independence, — these conceptions have not even appeared above the political horizon of this land. Instead of having to deal with anything so complex the British have been able to utilize the ancient institutions of the native people, which have always rested on the simple principle of autocratic authority.

That such a system probably could not be reproduced in any other country in the Orient is but another illustration of a fact of which many Westerners seem unaware: that instead of the "problem of the East" there are as many problems as there are peoples in that no longer distant world. In 1899 most of the Malays in the Philippines had been Christians for three centuries, had lost whatever memory of native rulers or native political institutions they may have ever had, and were accustomed to a centralized government of the Occidental type and to the ways of Western civilization. Also they had fought a desperate rebellion against Spanish tyranny, had laid the foundations of a national spirit, and had produced national leaders. Thus, though many common factors remain, the problems of British and American Malaya are essentially different today. But although each nation is perforce steering its own course, a study of the two colonies convinces the observer of nothing more fully than that each may learn much from the other.

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# EUPEN AND MALMEDY

*By Robert H. George*

UNOFFICIAL conversations between Brussels and Berlin, the meeting of French and German ministers at Thoiry, the French Council meeting of September 21st, together with the journalistic variations on these events, have again given prominence to Eupen and Malmedy. The territories to which these names apply lie just within the present eastern frontier of Belgium, having passed from German to Belgian sovereignty as a result of the Treaty of Versailles. They are neither large nor populous — Prussian statistics of 1910 recorded that Eupen had a population of 26,156 and an area about 65 square miles, while Malmedy's 34,768 inhabitants were found within an area of just less than 300 square miles.

Whether viewed alone or in connection with other international matters, the question of Eupen and Malmedy arises from Articles 34–39 of the Treaty of Versailles, which articles direct that these one-time *Kreise* of the German Empire be handed over to Belgium. It was provided, however, that within six months of the coming into effect of the Treaty, registers should be opened by the Belgian authorities at Eupen and Malmedy in which the inhabitants of the *Kreise* should be entitled to record in writing a desire that all or part of the territories remain under German sovereignty. Belgium was engaged to report the result of this public expression of opinion to the League of Nations, and pledged to accept the League's decision in the matter.

Considerations of history, of military protection, of economic interests, of reparation, and of ethnography lay behind these articles of the Versailles agreement.

Belgium might with propriety allege that the great bulk of the districts in question were historically part of those forming the modern Kingdom of Belgium — the more so since Germany's counter claim rested on the unsubstantial basis that they, or portions of them, had been included in the Circles of the Holy Roman Empire drawn upon the map in 1512. Moreover, Prussia's possession of Eupen and Malmedy dates only from 1814–1815, when they were arbitrarily assigned to her as part of that award of population on the Left Bank of the Rhine which was designed to compensate her for her renunciation of claims on Saxony.

The military consideration was also powerful. In the *Kreis* of Malmedy lay the great German mobilization camp of Elsenborn. Established as a summer training camp in 1896, it later constituted a centre for the network of double track railroads with multiple sidings which, in February of 1914, were connected with the Belgian railroad system by the international line Malmedy-Stavelo. Belgium had assisted in the construction of these last few miles of "light railway" which, despite its classification, was of standard gauge allowing a speed of 40 miles per hour. In August, 1914, General Von Emmich gathered his troops for the march on Liège in the region of Aachen, Eupen and Malmedy. To deprive Germany of these mobilization points was to render Belgium more secure.

In the case of Malmedy the historical and military argument was reinforced

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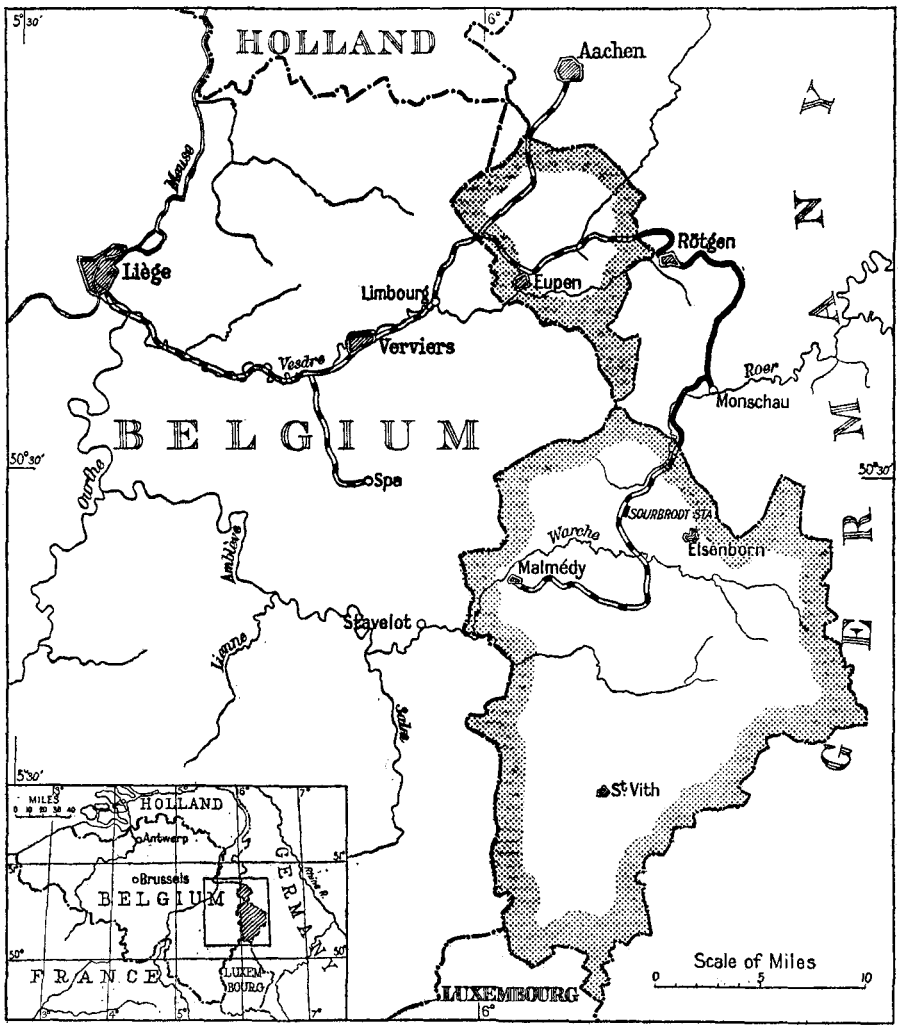
by economic and ethnic facts. To all appearance this *Kreis* was in closer economic association with regions lying on its western border than with those to the east; while, in spite of more than a century of Prussian control, Prussian statistics admitted the existence of a considerable Walloon element in the population. The town of Malmedy, with 94 percent of its inhabitants speaking




French, was the outstanding example of the latter fact, although the German plenipotentiaries noted the presence of 9,500 Walloons within the *Kreis*. From these elements the Belgian Government had received petitions asking for annexation.

In Eupen, however, the Walloon element was virtually non-existent. The economic argument there was weaker in one respect, because of the district's proximity to Aachen; but stronger in another, since the zinc mines exploited by

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the works in Neutral Moresnet (a territory disputed since 1815, but assigned to Belgium outright by Article 32 of the Treaty) were situated within the *Kreis*. Moreover, Eupen contained much timber land which chanced to be the property of the Prussian state. This, if assigned to Belgium, would serve as partial and immediate reparation for the destruction of Belgian timber by the German forces during their occupation. Furthermore, Belgian control of the headwaters of the Vesdre, lying within the *Kreis*, would be of advantage in the proper operation of the canal system of eastern Belgium.

In their "Reply" to the German plenipotentiaries' "Remarks" the Allied and Associated Powers were at pains to note that reasons of the above order "justify the reunion of the territory to Belgium *provided* (the italics are the writer's) the petitions to this effect are sufficiently supported by the population of the district." They further declared that the transfer of territory "will take place as a result of a decision of the inhabitants themselves taken under conditions which will ensure complete freedom of vote," and that "the Treaty makes provision for consulting the population under the auspices of the League of Nations." Unfortunately the Treaty did not make provision for consulting the population under the active direction and supervision of the League. That body was merely to be notified of the result of the public expression of opinion recorded in registers opened by the Belgian Government at Eupen and Malmedy, and to render a decision thereon. In consequence, the Council of the League was forced to admit its lack of jurisdiction when, in April, 1920, the German Government complained of the manner in which the "plebiscite" was being held. Moreover, the very wording of the Treaty permitted, if it did not direct, Belgium's Commissioner to consult public opinion under circumstances which cannot be said to have ensured "complete freedom of vote," since General Baltia was well within his rights in limiting the means of recording a protest against annexation to Belgium to the public signing of the register at Eupen or (the only other provided) that at Malmedy. These registers were open, under the eyes of Belgian officials, from January to July, 1920.

In view of the Treaty terms the limitation of possible protestants to such men and women as were resident in the *Kreise* before August 1, 1914, and had attained the age of 21 (or would do so before the end of the registration period) was unexceptionable. Granting the legality of the machinery for registration, we may affirm that reasonable answers were given by Belgian authorities to German charges that great pressure was being employed to determine the verdict. Moreover, the Belgians' counter charge was sufficiently explicit to indicate the delicacy of their task at a time when General Baltia was forced to employ former German officials in local administration. All things considered, however, the recorded protests were remarkably few — merely 62 in Malmedy and 209 in the smaller *Kreis* of Eupen. Of the total of 271 signatures in the registers, 202 were those of former German officials. Fully informed of the facts, the Council of the League gave Belgium full sovereignty over both *Kreise* on September 20, 1920, and maintained its own competence in the matter in the face of subsequent German protests.

Prior to this date the international commission to delimit the actual frontier line had enlarged the territories gained by Belgium. Under Articles 35 this body was to determine the frontier between Germany and Belgium, "taking into

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account economic factors and lines of communication." On the ground of economic necessity the Belgian member pressed for that portion of the railroad line Eupen-Rötgen-Monschau-Malmedy which lay beyond the administrative frontiers of the ceded *Kreise*, although Article 372 of the Treaty provided for the operation of such a connecting line under an agreement between the railroad administrations of the nations concerned. On March 27, 1920, the Commission gave the line itself to Belgium, thus creating a most extraordinary set of German enclaves between the railway and the regular Belgian frontier. Germany made an immediate protest to the League, but without result.

Curious and meagre reports concerning conditions in the new Belgian territory have appeared since that time. General Baltia has been hailed by some Belgians as the saviour of "pays redimés," and assailed by others as an autocrat who held "a parody on a plebiscite." In March, 1925, the Belgian cantons of Eupen, Malmedy and St. Vith were assimilated with the electoral district of Verviers, to which an additional deputy was assigned, and on April 5th of that year the inhabitants of the former *Kreise* participated in a general election. Three Catholics and three Socialists were returned from the district, and among the latter was one who had conducted his campaign in German and criticized the actions of General Baltia. He owed his election to proportional representation, however, since the voters of the three cantons generally indicated their preference for the Catholic representatives. A Belgian asserts (in a German periodical) that nearly all those who signed the registers have been expelled from Belgium on the ground that their action constituted an option for German citizenship, but goes on to state that German is the language of administration, courts, and schools. In spite of the latter fact a "Heimatsbund" was formed in St. Vith last April "to protect the mother tongue, manners and customs of Eupen, Malmedy and St. Vith." The customs barrier now existing between Germany and Belgium has forced some economic readjustment at the cost of tramways and industries, but to the advantage of small shopkeepers.

However, such matters are at the moment comparatively unimportant. The question of Eupen and Malmedy has not been revived as the result of local and popular agitation. It owes its present vitality to *Grosse Politik*.

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# SOME RECENT BOOKS ON INTERNATIONAL RELATIONS

*By William L. Langer*

## *General International Relations*

THE MODERN STATE. By R. M. Mac Iver. New York: Oxford University Press, 1926, 516 pp.

A stimulating examination of the bases of the modern state.

THE ART OF BEING RULED. By Wyndham Lewis. New York: Harper, 1926, $4.00.

A rather disjointed though suggestive critique of the organization of modern society.

POLITICS AND ECONOMICS. By Herbert G. Williams. London: Murray, 1926, 179 pp 5/.

A good exposition of the increasing importance of economic factors in shaping the destiny of society.

DEMOKRATIE ODER DIKTATUR? By Hermann Martin. Berlin: Verlag für Politik und Wirtschaft, 1926, 296 pp. M. 6.

Eloquent pleading for the necessity of finding a compromise between the propertied and unpropertied classes on a democratic basis.

DAS GESETZ DER MACHT. By Friedrich Wieser. Vienna: Springer, 1926, 47 Schill.

An eminent Austrian economist examines the structure of the state and of society.

MAN IS WAR. By John Carter. Indianapolis: Bobbs-Merrill, 1926, 398 pp. $3.50.

A sceptical survey of present day conditions and the prospects for the future.

DER BERUF DES DIPLOMATEN. By Severus Clemens. Berlin: Deutsche Verlagsgesellschaft für Politik und Geschichte, 1926, 107 pp. M. 4.

A pioneer essay on the psychology of the diplomat, by a former member of the German diplomatic service.

VOELKERRECHT IM GRUNDRISS. By Julius Hatschek. Leipzig: Deichert, 1926, 254 pp. M. 5.

A first-rate handbook of international law.

CHIFFONS DE PAPIER. By Alcide Ebray. Paris: Delpeuch, 1926, Fr. 20.

Really a history of the violations of treaties from 1798 to the present.

DIE *DE FACTO* REGIERUNG IM VOELKERRECHT. By Jean Spiropoulos. Kiel: Verlag des Instituts für Internationales Recht, 1926, 188 pp. M. 7.50.

A thorough scholarly contribution.

LES ASPECTS ÉCONOMIQUES DU DROIT DE PRISE DÉPUIS LA GUERRE MONDIALE. By Jacques Dumas. Paris: Sirey, 1926, 628 pp. $4.00.

An exhaustive and scholarly investigation of the conditions of commercial war, both before and after the Great War.

AIRCRAFT AND COMMERCE IN WAR. By James M. Spaight. New York: Longmans, 1926, 119 pp. $2.25.

An interesting essay stressing the value of aircraft in commercial warfare. Written from the British viewpoint.

BATTLESHIPS IN ACTION. By H. W. Wilson. London: Sampson, Low, 1926, 337, 384 pp. 42/.

An exhaustive and standard history of the evolution of naval warfare since 1866.

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GOVERNMENTS AND WAR. By Major-General Sir Frederick Maurice. London: Heinemann, 1926, 171 pp. 8/6.

A series of lectures dealing with the relationship of the civil to the military administration in times of war.

IMPERIALISM AND WORLD POLITICS. By Parker T. Moon. New York: Macmillan, 1926, 583 pp.

The best general account of imperialism and of its expression during the last generation.

FOREIGN TRADE AND WORLD POLITICS. By Herbert F. Fraser. New York: Knopf, 1926, 359 pp. $3.25.

A fine exposition of the relation of foreign policy to trade, and the whole international economic complex.

THE SCOURGE OF EUROPE. By L. V. Birck. London: Routledge, 1926, 312 pp. 10/6.

A history and description of the public debts.

LA GRANDE INJUSTICE. By Octave Homberg. Paris: Grasset, 1926, 100 pp. Fr. 5.

A bitter sensational book on the interallied debts.

FOREIGN EXCHANGE AND FOREIGN DEBTS. By Hubert C. Walter. London, Methuen, 1926, 254 pp. 6/.

A good essay on the relationship between exchange and international obligations.

RESTORING CURRENCY STANDARDS. By E. L. Hargreaves. London: King, 1926, 120 pp. 6/.

A constructive study of the problem from the larger viewpoint.

DIE SATZUNG DES VOELKERBUNDES. By Freiherr von Freytag-Loringhoven. Berlin: Stilke, 1926, 379 pp.

A good account of the constitution of the League and of the International Court.

DER VOELKERBUND. VERFASSUNG UND FUNKTION. By Theodor Niemeyer, C. Rühland and J. Spiropoulos. Kiel: Verlag des Instituts für Internationales Recht, 1926, 79 pp.

One of the best brief and authoritative accounts of the origin and the organization of the League.

THE LEAGUE OF NATIONS AT WORK. By P. J. Noel Baker. London: Nisbet, 1926, 151 pp. 3/6.

A competent popular presentation.

THE INTERNATIONAL LABOR ORGANIZATION. By Paul Perigord. New York: Appleton, 1926, 368 pp. $3.00.

A conventional detailed account of the history and organization of the Labor Bureau.

LA NATURA GIURIDICA DEI MANDATI INTERNAZIONALI. By G. M. de Francesco. Pavia: Tipografia Cooperativa, 1926, 130 pp.

A strictly legal study.

DIE MINDERHEIT. By Sigismund Gargas. The Hague: Belinfonte, 1926, 104 pp.

The problem of minorities attacked from the sociological standpoint.

## *International Relations of the United States*

EIGHT YEARS WITH WILSON'S CABINET. By David. F. Houston. Garden City: Doubleday, Page, 1926, 369, 360 pp. $10.00.

A valuable contribution to the history of the Wilson administration, by the former Secretary of the Treasury.

TAFT PAPERS ON THE LEAGUE OF NATIONS. Edited by Theodore Marburg and Horace E. Flack. New York: Macmillan, 1926, 360 pp. $4.50.

A convenient compilation, well edited.

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FACING EUROPE. By Frederick Bausman. New York: Century, 1926, 330 pp. $3.00.

A rather emotional exposition of America's isolation, which the author ascribes to our trade rivals, the English.

THE WAR PERIOD OF AMERICAN FINANCE. By Alexander D. Noyes. New York: Putnam, 1926, 459 pp. $2.20.

An account of the development of American finance from 1908 to 1925 by a well-known authority.

THE UNITED STATES OIL POLICY. By John Ise. New Haven: Yale University Press, 1926, 557 pp. $7.50.

An exhaustive study of the methods and policies of conservation and exploitation.

THE PHILIPPINES. By Nicholas Roosevelt. New York: Sears, 1926, 315 pp. $3.50.

An eminently fair and broad-minded account of the various aspects of the Philippine problem.

HAWAII TODAY. By Lieutenant R. C. Wriston. Garden City: Doubleday, Page, 1926, 147 pp. $5.00.

A well-written and rather fascinating survey of the island group, by an army air officer.

## *Europe*

THIRTY YEARS OF MODERN HISTORY. By W. K. Wallace. London: Allen and Unwin, 1926, 293 pp. 10/6.

An interpretative essay, aiming to show the growing preponderance of the economic over the purely political factors.

KATECHISMUS ZUR KRIEGSSCHULDFRAGE. By Wilheim Schaer. Berlin: Verlag des Arbeiterausschusses Deutscher Verbände, 1926, 160 pp. M. 2.

A collection of abstracts from Allied writers purporting to set forth the pre-war policies of England, France and Russia.

DIE VEREINIGTEN STAATEN VON EUROPA. By Wladimir Woytinsky. Berlin: Dietz, 1926, 186 pp. M. 4.

Another plea for the economic union of Europe.

DIRITTI DI LIBERTA. By Francesco Ruffini. Turin: Gobetti, 1926.

An excellent review of the constitutional development of Europe by a former Italian Minister of Education.

DIE BAUERNINTERNATIONALE. Berlin: Neues Dorf, 1926, 186 pp.

Twenty essays published by the International Peasant Council in Moscow, setting forth the agrarian problems of Europe from the Bolshevik standpoint.

DIE SPRACHLICHEN MINDERHEITEN IN EUROPA. By Jan Auerhan. Berlin: Hensel, 1926, 155 pp.

An attempt by a Czech writer to minimize the problem of linguistic minorities and to reject the idea of international action.

HISTOIRE DE LA TROISIÈME RÉPUBLIQUE. By Alexandre Zévaès. Paris: George-Anquetil, 1926, 650 pp. Fr. 15.

Perhaps the best general account of the history of the Third Republic, bringing the story down to 1926.

MÉMOIRES DU MARÉCHAL GALLIENI. Paris: Payot, 1926, 256 pp. Fr. 20.

The definitive edition of the famous marshal's memoirs, important for the history of the battle of the Marne and the defence of Paris.

LES ORGANISATIONS DU BLOCUS EN FRANCE PENDANT LA GUERRE. By Denys Cochin. Paris: Plon, 1926, 292 pp. Fr. 20.

An authoritative collaborative work.

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VOLK OHNE POLITIK. By J. Bucher. Rostock: Verlag Nationale Revolution, 1926, 385 pp. M. 3.

A rather superficial examination of pre-war politics aiming to discredit the idea of Paneuropa and glorify the former *Machtstaat*.

DER DEUTSCHE KRONPRINZ. By Georg Freiherr von Eppstein and Hermann von François. Leipzig: Koch, 1926, 428, 247 pp. M. 22.

The first part a conventional eulogy, the second part a valuable contribution to the history of German operations on the West Front.

MONARCHIE? By Ernst Graf Reventlow. Leipzig: Hammer, 1926, 124 pp. M. 2.

An acute criticism of the old régime coming to the conclusion that the monarchy will be possible only if based on the national idea.

DAS DEUTSCHE AUSWANDERUNGSPROBLEM DER NACHKRIEGSZEIT. By Karl C. Thalheim. Crimmitschau: Rohland and Berthold, 1926, 173 pp. M. 6.

The first adequate treatment of the German emigration problem in the post-war period.

DEUTSCHTUM IN NOT. By Paul Rohrbach. Berlin: Andermann, 1926, 416 pp. M. 28.

The well-known writer paints a lurid picture of the condition of the oppressed Germans outside the Reich.

DER WIEDERAUFBAU DER DEUTSCHEN HANDELSSCHIFFAHRT. By Hans E. Priesker. Berlin: Springer, 1926, 152 pp. M. 10.50.

A readable account of the recovery of Germany's merchant marine.

STORIA CRITICA DEL MOVIMENTO SOCIALISTA ITALIANO. By Robert Michels. Florence: La Voce, 1926, 464 pp. L. 24.

The standard and authoritative history of the development of Italian socialism, bringing the story to 1911.

LE GRANDI UNITÀ NELLA GUERRA ITALO-AUSTRIACA. By Enrico Pizzi. Rome: Pinnaro, 1926, 319 pp. L. 20.

The first volume of the official history of the war.

ITALIA BARBARA. By Curzio Malaparte. Turin: Gobetti, 1926, 128 pp.

Unquestionably one of the most significant and searching criticisms of European liberalism and the Cavour policy of importing it into Italy.

THE FASCIST EXPERIMENT. By Luigi Villari. London: Faber and Gwyer, 1926, 269 pp. 12/6.

The English translation of a well-known historian's latest work on Fascism.

ITALY AND FASCISMO. By Luigi Sturzo. London: Faber and Gwyer, 1926, 317 pp. 15/.

The English translation of a significant book by the former Catholic leader.

CHE COSA È IL FASCISMO. By Giovanni Gentile. Florence: Vallenbi, 1926, 262 pp. L. 12.

A philosophic treatise giving a speculative basis to Fascist doctrine.

MUSSOLINI: HIS WORK AND THE NEW SYNDICAL LAW. By Raffaele Muriello. Edinburgh: Macniven and Wallace, 1926, 64 pp. 1/.

An examination of the constructive aspects of the Fascist regime.

IL CAMBIO ITALIANO. By Iacopo Mazzei. Florence: Vallechi, 1926, 122 pp. L. 8.

A study of the causes of the recent fluctuations in the value of Italian currency.

LA RIVALUTAZIONE DELLA LIRA. By Guilio Alessio. Milan: Libraria, 1926, 184 pp. L. 22.

An examination of the possibilities of revalorizing the currency.

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SEEDS OF WAR. By Douglas Lockhart. London: Gandy, 1926, 184 pp. 6/6.
A political survey, of a most superficial nature, covering the Succession States.

POLITICAL PARTIES IN CZECHOSLOVAKIA. By Josef Chmelar. Prague: Orbis, 1926, 1/6.
An admirable review of the parties, leaders, press and general politics of the state.

POLAND OLD AND NEW. By Roman Dyboski. New York: Oxford University Press, 1926, 68 pp. $1.25.
Three brilliant lectures on various aspects of Polish life.

LITAUEN. By Hans Mortensen. Hamburg: Friedrichsen, 1926, 321 pp. M. 25.
A pioneer geographic study of the new Lithuanian state.

FINLAND TODAY. By Frank Fox. London: Black, 1926, 198 pp. 7/6.
An excellent and thoroughly reliable history and general survey of Finland.

CONDITIONS SOCIALES EN FINLANDE. Helsingfors: Imprimerie du Gouvernment, 1926, 150 pp.
A coöperative work by competent scholars, setting forth various aspects of social problems in Finland.

ERINNERUNGEN. By Michael Wladimir Rodzjanko. Berlin: Hobbing, 1926, 214 pp. M. 8.
The German translation of the memoirs of the former president of the Duma; a valuable contribution to the history of the Russian revolution.

JOURNAL DE LA GÉNÉRALE BOGDANOVITCH. Paris: Payot, 1926, 320 pp. Fr. 20.
The journal of the wife of the Russian general, giving a good picture of the intrigue in Russian court life before the war.

FÜRST ANATOL PAWLOWITSCH LIEVEN. By Kurt von Braatz. Stuttgart: Belser, 1926, 165 pp. M. 3.
A valuable contribution to the history of the revolution in the Baltic provinces.

RUSSLAND AUF DEM WEGE ZUR KATASTROPHE. Edited by Gunther Frantz. Berlin: Deutsche Verlagsgesellschaft für Politik und Geschichte, 1926, 343 pp. M. 11.
A German translation of the diaries of the Grand Duke Andrei and of the war minister Polivanov, with an extremely good introduction by Frantz.

THE MARCH OF THE SEVENTY THOUSAND. By Henry Baerlein. London: Leonard Parsons, 1926, 12/6.
The first adequate account in English of the exploits of the Czech legions in Siberia.

AVEC LES TCHÉCOSLOVAQUES. By Colonel Vergé. Paris: Guillon, 1926, 208 pp. Fr. 12.
Another colorful picture of the Czech adventure.

DAS LEBEN LENINS UND DER LENINISMUS. By N. N. Popow and J. A. Jakowlew. Moscow: Zentral-Voelkerverlag, 1926, 136 pp. Ruble .50.
The life of the saint for popular consumption.

DIE WIRTSCHAFTLICHE ENTWICKLUNG DER SOWJET-UNION. By Peter and Irma Petroff. Berlin: Handelsvertretung der U. S. S. R. in Deutschland, 1926, 313 pp. M. 10.
An official account of the Russian industrial situation.

LA CONDITION DES TRAVAILLEURS DANS LA RUSSIE DES SOVIETS. By Renée M. Dadu. Paris: Dalloz, 1926, 180 pp. Fr. 20.
An interesting brief monograph.

SUISSE ET SOVIETS. By Veridicus. Paris: Delpeuch, 1926, 128 pp. Fr. 8.
The story of the Russo-Swiss conflict, told from the Russian side.

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## *The British Commonwealth of Nations*

SOLDIERS AND STATESMEN. By Field Marshal Sir William Robertson. New York: Scribner, 1926, 333, 328 pp. $12.00.

One of the most important contributions to the history of the English command during the war.

"SECRET AND CONFIDENTIAL." By Brigadier-General W. H. H. Waters. New York: Stokes, 1926, 402 pp.

The experiences of a British military attaché in Europe and Asia.

FIFTY YEARS OF BRITISH PARLIAMENT. By the Earl of Asquith and Oxford. Boston: Little, Brown, 1926, 314, 314 pp. $8.00.

The parliamentary reminiscences of the former Prime Minister and Liberal leader, indispensable for a study of recent English political life.

ENGLAND. By the Very Reverend W. R. Inge. New York: Scribner, 1926, 302 pp. $3.00.

A characteristically pessimistic study, but stimulating if only because of its exaggerations.

A SHORT SURVEY OF THE ECONOMIC DEVELOPMENT OF ENGLAND AND THE COLONIES 1874–1914. By Charlotte M. Waters. London: Douglas, 1926, 176 pp. 7/6.

A reliable brief text.

IF I WERE A LABOUR LEADER. By Sir Ernest J. P. Benn. New York: Scribner, 1926, 154 pp. $1.75.

An English capitalist's appeal for reason and a sense of responsibility to the community.

MUST ENGLAND TRAVEL THE MOSCOW ROAD? By Norman Angell. London: Douglas, 1926, 190 pp. 5/.

A discussion of the English economic crisis.

BRITAIN'S ECONOMIC PLIGHT. By Frank Plachy, Jr. Boston: Little, Brown, 1926, 249 pp. $1.50.

A very unsatisfactory and unappreciative survey of the situation.

THE INDIA OFFICE. By Sir Malcolm M. C. Seton. London: Putnam, 1926, 299 pp. 7/6.

An excellent and well-written account of the organization and working of the office.

MODERN INDIA. By R. Palme Dutt. Bombay: Sunshine Publishing Company, 1926, 211 pp. Rs. 2.12.

A history of the British rule in India as seen by a Bolshevik.

THE INDIAN CONSTITUTION AND ITS ACTUAL WORKING. By Debenara N. Banerjee. London: Longmans, 1926, 10/6.

A complete and reliable handbook for reference.

THE RACE PROBLEM IN SOUTH AFRICA. By Walter A. Cotton. London: S. C. M. 1926, 144 pp. 2/6.

A dispassionate and constructive essay.

## *The Near East*

IL LEVANTE MEDITERRANEO E L'ITALIA. By Orazio Pedrazzi. Milan: Alpes, 1925, 169 pp. L. 8.

A good exposition of Italy's interests and aspirations in the eastern Mediterranean.

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THE NEW BALKANS. By Hamilton Fish Armstrong. New York: Harper, 1926, 180 pp. $3.00.

An authoritative study of present-day Balkan problems, and of their international significance.

HISTOIRE DIPLOMATIQUE DE LA GRÈCE. By Edouard Driault and Michel L'Héritier. Volume V. Paris: Presses Universitaires, 1926, 568 pp. Fr. 40.

The last volume of the monumental history of Greece, covering the period from 1908 to 1923.

LA GRANDE ROUMANIE. By C. G. Rommenhoeller. The Hague: Nijhoff, 1926, 720 pp. Fr. Swiss 13.

A ponderous general survey, economic, social, financial and political, by a Rumanian Consul-General.

THE ECONOMIC SITUATION AND ORGANIZATION OF ROUMANIA IN 1926.

An official collection of essays by competent writers.

DIE BESSARABISCHE FRAGE. By Carl Uhlig. Breslau: Hirt, 1926, 107 pp. M. 3.

The problem approached from the geopolitical angle.

LA BESSARABIE. By Anthony Babel. Paris: Alcan, 1926, Fr. 30.

One of the best general historical, ethnographic and economic surveys of the territory, though inclined to emphasize the Rumanian viewpoint.

LAND PROBLEMS IN PALESTINE. By A. Granovsky. London: Routledge, 1926, 120 pp. 3/6.

A good sketch of one of Palestine's chief problems.

PALESTINE AWAKE. By Sophie I. Loeb. New York: Century, 1926, $2.50.

A readable account of the progress made by the Zionists.

## *The Far East*

ASIA IN THE TWENTIETH CENTURY. By Sir A. Frederick Whyte. New York: Scribners, 1926, 184 pp. $1.75.

Four very interesting lectures by the former president of the Indian Legislative Assembly.

DIE IMPERIALISTISCHE POLITIK IM FERNEN OSTEN. By Ernst Reinhard. Leipzig: Bircher, 1926, 237 pp. M. 4.80.

The Chinese troubles pictured as being due to the machinations of big business interests.

THE ORIENT I FOUND. By Thomas J. McMahon. New York: Appleton, 1926, 223 pp. $5.00.

An Australian view of the future influence and power of the Oriental nations.

AN OUTLINE HISTORY OF CHINA. By Herbert H. Gowen and Josef W. Hall. New York: Appleton, 1926, 570 pp. $4.00.

A general text, stressing particularly the Republican period.

DIE SEELE CHINAS. By Richard Wilhelm. Berlin: Hobbing, 1926, 356 pp.

One of the best recent interpretations of the Chinese psychology, by a writer long resident in the Far East.

LA CIVILISATION CHINOISE MODERNE. By A. F. Legendre. Paris: Payot, 1926, 304 pp. Fr. 20.

The impressions of a well-known anthropologist based on twenty years' experience in the Far East.

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LA CHINE ET LE MONDE. Paris: Presses Universitaires, 1926, 290 pp. Fr. 10.
A second volume of studies, chiefly by members of the École des Sciences Politiques.

THE FOREIGN TRADE OF CHINA. By C. F. Remer. New York: Stechert, 1926, 269 pp. $3.00.
A sane scholarly historical study.

VON CINGGIS KHAN ZUR SOWJETREPUBLIK. By Iwan J. Korostovetz. Berlin: de Gruyter, 1926, 351 pp. M. 15.
An excellent history of Mongolia, with emphasis on the more recent period.

PRESENT DAY JAPAN. By Yusuke Tsurumi. New York: Columbia University Press, 1926, 119 pp. $1.75.
A series of stimulating lectures by a Japanese liberal publicist.

## *Latin America*

PROBLEMS OF PAN AMERICANISM. By Samuel G. Inman. London: Allen and Unwin, 1926, 439 pp. 10/.
An honest attempt to interpret the various American nations to each other and to get to the bottom of the difficulties in the way of closer coöperation.

RAINBOW COUNTRIES OF CENTRAL AMERICA. By Wallace Thompson. New York: Dutton, 1926, 284 pp. $5.00.
A good descriptive volume.

THE PEOPLE NEXT DOOR. By George Creel. New York: Day, 1926, 418 pp. $4.00.
A general book on Mexico.

APUNTES PARA EL HISPANO-AMERICANISMO. By Suil Ednesor. Montevideo: 1925, 123 pp.
Another attempt to set forth the advantages of Hispanic Americanism.

## *Miscellaneous*

THE PULSE OF PROGRESS. By Ellsworth Huntington. New York: Scribner, 1926, 341 pp. $5.00.
A collection of essays dealing with the influence of environment and climate upon the development of civilization.

THE TWILIGHT OF THE WHITE RACES. By Maurice Muret. New York: Scribner, 1926, 286 pp. $3.00.
A stimulating book reviewing the great cultural struggles of the past and foreshadowing the downfall of western civilization.

FRAUENFRAGE UND FEMINISMUS VOM ALTERTUM BIS ZUR GEGENWART. By K. A. Wieth-Knudsen. Suttgart, Franckh, 1926, 244 pp.
A scholarly sociological study by a Danish authority.

THE SOCIALIST NETWORK. By Nesta H. Webster. London: Boswell, 1926, 165 pp. 10/.
Really a comprehensive and useful survey of the socialist organization in the various countries of Europe and in the United States.

GEHEIME MÄCHTE IN DER WELTPOLITIK. By Vinzenz Kreyenbühl. Olten: Walter, 1926, 157 pp.
A Catholic indictment of Freemasonry, which is represented as organized in the League of Nations for an attack upon revealed religion.

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# SOURCE MATERIAL

*By Denys P. Myers*

## I: PUBLIC DOCUMENTS OFFICIALLY PRINTED

Documents may be procured from the following. United States: Gov't Printing Office, Washington. Great Britain: P. S. King & Son, 2 Great Smith Street, London, or British Library of Information, 44 Whitehall St. New York. France: Terquem, 1 rue Scribe, Paris. League of Nations, Internat'l Labor Office and Perm. Court of Internat'l Justice: World Peace Foundation, 40 Mt. Vernon St., Boston. Washington imprints are Government Printing Office and London imprints are His Majesty's Stationery Office, unless otherwise noted.

### ARMAMENT CONFERENCE

PREPARATORY Commission for the Disarmament Conference. Memorandum submitted to the Preparatory Commission for the Disarmament Conference by the Greek Government. 7 p. 33½ cm. (1926. IX. 4.) $.05.

REPORT to the Council on the Work of the First Session of the Commission, held at Geneva from May 18th to 26th, 1926. 5 p. 34 cm. (1926. IX. 5.) $.05.

MEMORANDUM submitted by the Military Authorities of the Republic of Cuba, in the name of their Government, to the Preparatory Commission for the Disarmament Conference, entrusted with the preparation for the Conference for the Reduction and Limitation of Armaments. 11 p. 33½ cm. (1926. IX. 6.) $.10.

DOCUMENTS of the Preparatory Commission for the Disarmament Conference entrusted with the Preparation for the Conference for the Reduction and Limitation of Armaments. Series II. 129 p. 32½ cm. (1926. IX. 7.)

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Prefectoral ordinances, *Temps*, Aug. 22, p. 2.
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FOREIGN AFFAIRS

Vol. 5 SPECIAL SUPPLEMENT No. 2

# AN ACKNOWLEDGMENT TO MR. ROOT

*By John W. Davis*

*President, Council on Foreign Relations*

IT is little enough to bear witness in these pages to our debt of gratitude to Mr. Elihu Root for his gift to the Council on Foreign Relations of the money part of the Woodrow Wilson Award, amounting to $25,000, to be used to start a sustaining fund for FOREIGN AFFAIRS.

In an admirable article in the first issue of FOREIGN AFFAIRS, published over four years ago, Mr. Root wrote:

"When foreign affairs were ruled by autocracies or oligarchies the danger of war was in sinister purpose. When foreign affairs are ruled by democracies the danger of war will be in mistaken beliefs. The world will be the gainer by the change, for, while there is no human way to prevent a king from having a bad heart, there is a human way to prevent a people from having an erroneous opinion. That way is to furnish the whole people, as a part of their ordinary education, with correct information about their relations to other peoples, about the limitations upon their own rights, about their duties to respect the rights of others, about what has happened and is happening in international affairs, and about the effects upon national life of the things that are done or refused as between nations; so that the people themselves will have the means to test misinformation and appeals to prejudice and passion based upon error."

That Mr. Root should now feel that the achievements of FOREIGN AFFAIRS in the pursuit of this ideal are worthy of such splendid reward is gratifying in the extreme. His recognition of its usefulness will be particularly welcome to the group of patriotic Americans, 109 in number, who in 1922 saw the need for an impartial review devoted to the study of American foreign policy, and who since then have been contributing to an underwriting

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fund in order to make this publication possible. They have modestly insisted on remaining anonymous. It may be said of them, however, that (like the members of the parent body, the Council on Foreign Relations) they have widely divergent political affiliations and represent a marked variety of views. Their common bond has been their desire that FOREIGN AFFAIRS should exist and fulfill their purpose.

The responsible editors of FOREIGN AFFAIRS, in their turn, have enjoyed absolute liberty from any sort of control or influence on the part of the Council, and, needless to say, from the generous contributors to the underwriting fund. They have taken advantage of the opportunity thus offered and have created a review which in its field stands alone. It is gratifying to report that today it has over 10,000 subscribers in all parts of the world.

To Mr. Root, to the sponsors of FOREIGN AFFAIRS, and to its editors, the Council on Foreign Relations can make no other return than a declaration of its renewed purpose to pursue those aims of public service that called it into being, and to promote within the limits of its power the high ends which Mr. Root himself has so well described.

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# AMERICA AND EUROPE

*An address by Mr. Elihu Root, former Secretary of State of the United States, in accepting the award of the Woodrow Wilson Foundation, made to him in New York, December 28, 1926, "in recognition of his services to humanity and the cause of peace through justice in helping to create the Permanent Court of International Justice."*

*By Elihu Root*

I BEG you to believe that I deeply appreciate the honor that you do me. The finest thing about it is the spirit in which it is done, which is able to brush aside as incidental long political opposition and not a few differences of opinion publicly avowed, and to rest upon fundamental identity of purpose with a sense of proportion suitable to the high distinction of the great President whose memory you celebrate, and suitable to the deep and permanent purpose of your organization.

In foreign affairs it is peculiarly true that the spirit in which work is done is everything.

M. Briand in the Washington Conference five years ago said, very wisely as well as very eloquently, that in Europe there must be moral disarmament before there could be physical disarmament, and ever since he has been applying to the disturbed conditions of Europe that sage philosophy, to his own immortal glory and to the great benefit of all mankind.

Nations always will differ. They differ in inherited characteristics and predilections and traditions and modes of thought and feeling. But there never is a difference so great that it cannot be peaceably settled if approached in the right spirit.

And there never can be a difference so trifling that it may not be made the occasion of war if it is approached in the wrong spirit.

We are confronted by some difficulties in this respect in this country. We have long been a member of the community of nations, adjusting with our sister nations the rights and duties of members of that community by means of the diplomatic procedure which had grown up in the course of centuries — foreign offices and ambassadors and ministers and diplomatic notes and diplomatic memoranda and treaties and mediation and conciliation and so

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forth. At the close of the Great War, when the greater part of the nations of the world united in the League of Nations, they entered upon a new mode of regulating their conduct with regard to each other and adjusting the differences that arise in the ordinary course of international affairs. Instead of using the old method, they proceed by formal conference of Council and Assembly, and a large part of the business which foreign offices and ambassadors used to do is now done through the machinery of the League. We have stood out of the League and are going on in the old ways, by the old methods; and the utmost friendly consideration is needed to reconcile the conduct of international affairs in the new way by our sister nations across the Atlantic, and in the old way by ourselves. It is a very difficult thing to make a horse that trots and a horse that gallops pull evenly in the same team.

If the League of Nations had been formed against the United States, the matter would be simple; but it was not formed against the United States; it was formed in friendship to the United States. It was formed in the expectation that we would be a member, and it was formed with the understanding, based upon the judgment of our representative, our negotiator, our agent in the Conference at Paris, that it would be acceptable to the people of the United States.

We had a perfect right to refuse to enter into the Treaty. Fair notice of that was given by the provisions of our Constitution. Nevertheless, President Wilson, when he went to Paris, was our representative; he was our negotiator; he was our agent; he was the only one to whom the nations of Europe could look to ascertain what would be satisfactory to the people of the United States. And when the League was completed, when we refused to become a member of it, Europe was left with an incomplete organization, left without the support of the most populous and richest and most powerful nation whose name was written into the covenant. When Europe was left with that incomplete organization to deal with the wild forces that were set loose by the readjustment of territory and of sovereignty under the Treaty of Versailles, what would we naturally have said, what would any gentleman have said to another who had been brought into such an untoward condition by his representative and agent, mistaken, but in good faith? What but an expression of the most sincere regret? What but an expression of a confirmed intention and

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a strong desire to do everything possible to prevent our staying out of the League from being injurious to our old friends and associates?

What did we do? Has there ever been an exhibition by America of friendship or sympathy with the League and its work? Unfortunately, the controversy which resulted in our determining not to enter the League was violent, and bitter feelings were aroused. Those feelings came to be carried over to the League itself; and it came to be a common thing that we could read in the newspapers and hear in speeches and in conversation expressions of expectation that the League would fail, and evident pleasure when it seemed that it might fail. Those feelings were extended to the Court which was presently created to cover another part of the field in the same effort to bring about permanent peace. Reprisals began to come from the other side. Unkind expressions never can be confined to one side. Reprisals began to come, disagreeable things were said upon the other side, and a period of pin pricks has proceeded for years. It has colored and conditioned the consideration of the debts between the foreign nations and ourselves.

That is not all. Not only did we forget the demands of honorable obligation resting upon old associations and fellowship and the expectations raised by our own representative; but consider the service that was rendered by the League and by the Court. For these years the League in the political field and the Court in the judicial field have been rendering the best service in the cause of peace known to the history of civilization — incomparably the best.

War results from a state of mind. These institutions have been teaching the people of Europe to think in terms of peace rather than in terms of war. They have been teaching them by actual practice, by things done, to think of oral conference instead of war about policies; to think of argument and proof and judicial judgment instead of war about rights; teaching them to acquire habits of thinking and of acting that way. The question of war or peace for the next generation is being settled now, today, by the character and the habits of thought and feeling, and the standards of conduct, which the people of the world are learning today to guide them in the exigencies of the future.

We, the great peace-loving people, what have we done to help in this wonderful new work? No sympathy, no moral support, no

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brotherhood. Our executive department has done the best it could, but governments can do little. It is the people, the power of the people behind the government, that means everything.

We have allowed insensate prejudice, camouflaged by futile phrases, to appear, but falsely appear, to represent the true heart of the American people with all its idealism, with its breadth of human sympathy, with its strong desire that our country should do its share for peace and happiness and noble life in all the world. These are the qualities which save the soul of a nation rather than wealth and prosperity. But these qualities do not long survive disuse. The repercussions of our domestic strife seem to have prevented the effectiveness of our noblest impulses.

These, my friends, are some of the evils visited upon us by a hateful and contentious spirit; from which may the good Lord deliver us.

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